Different Policies for Different Peoples?

A Comparative Analysis of Norway and Alberta on the Choice of Fund Saving

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Master's Thesis
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Abstract

This thesis looks to explain why Norway and Alberta differ in their choices of natural resource revenue allocation. Norway saves most revenues in a government owned fund abroad, while Alberta leaves more revenues to be handled by the market and spends government derived rents on running provincial costs. Both cases keep vast amounts of oil and gas, and production volumes of these resources are about equal for the two. Alberta and Norway also display similarities on several other independent variables, which makes a 'most similar case' comparison suitable. The cases differ on the independent variables – political culture and political institutional structure. These two variables will be employed in an attempt to understand why policy outcomes differ so fundamentally in the two cases. The political culture of Alberta is described by the concept of western alienation that inherits distrust in government, and the right to free enterprise. The Norwegian political culture is described by the notion of egalitarian individualism where unity and equality are important features. The political institutional structure of Alberta is in this thesis understood by the notion of neo-pluralism. Here business interests are expected to hold an advantage over other interest groups in society. For Norway democratic corporatism is being employed as descriptive of the political institutional structure. Following the theories, empirics and history presented, this thesis shows that the explanatory variables of political culture and political institutional structure are important for understanding the differences in policy outcomes in Alberta and Norway. Resource curse and Dutch disease theory will be employed, together with empirical numbers, to show why, or in what degree, Alberta and Norway are susceptible to these phenomena. The research will show that Alberta is, however mildly, in a larger degree disposed to the effects of the resource curse and the Dutch disease, than Norway. The level of susceptibility is closely linked to the choice of fund saving or not, thus political culture and political institutional structure become pertinent in understanding the reason for the differences.

Acknowledgements

I would like to direct a sincere gratitude to:

My eminent supervisor Helge Hveem who seemingly never lost hope in me and provided me with valuable feedback throughout the last semesters.

My brother Magnus who, even though he is a busy globetrotter working toward nuclear arms abolition, made time to help me get things, if not straight, straighter.

My treasured friend Zlata who told me I could do it (just a little more work to be done, and you're good).

My Canadian mom Joanne: the auditor who got my grammar on track.

My dearest Siv, you got me out of bed in the morning. A prerequisite for work to begin!

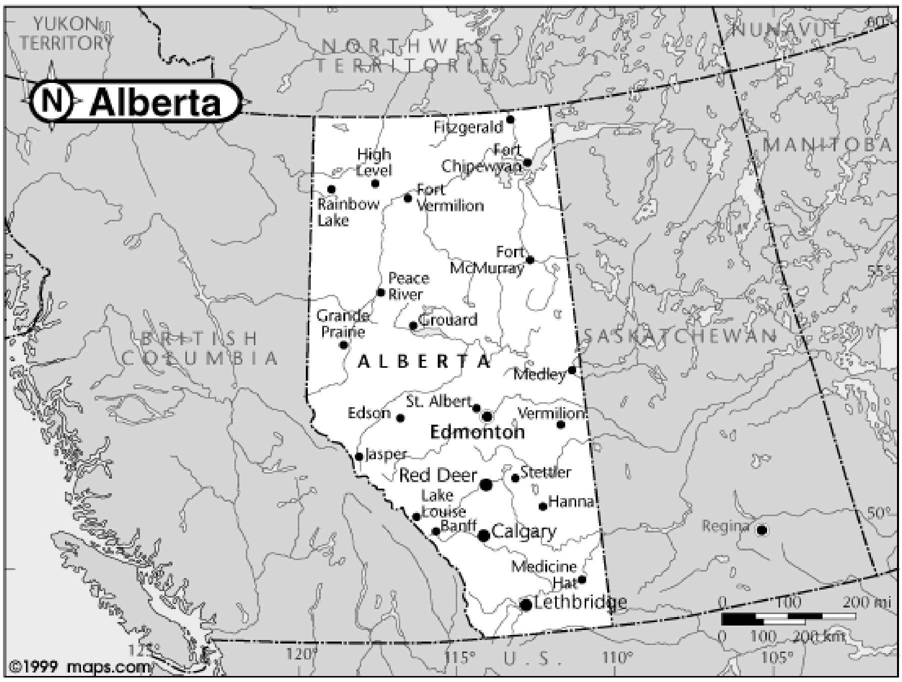
Thomas Løvold

Oslo, October 29, 2012

Background

The idea for this thesis was born during a semester abroad at the University of Alberta in Alberta, Canada. Alberta is one of ten provinces in Canada and is situated between British Columbia to the west and Saskatchewan to the east. Alberta is at the moment the most natural resource endowed province in Canada, and produces about the same amount of oil and gas as Norway every day. During my time in Alberta I discovered that the province is handling the rents derived from oil and gas production differently from what is seen in Norway. Alberta does like Norway keep a savings fund called the Alberta Heritage Savings Trust Fund, but stopped depositing revenue into it in 1987. Instead of saving the rents, the Alberta government spends almost all derived revenue on running provincial costs, and this policy runs contrary to the Norwegian solution of fund saving. It seems that Norwegian policymakers, with a few exceptions, agree on the decision of fund saving for future expenses. How may it be that the policies differ so fundamentally? The forthcoming thesis will look into this question.

For the sake of simplicity the standard currency that will be utilized through the thesis is C$, Canadian dollars. Numbers concerning Norway directly will also be provided in NOK, Kroner. Please note that online references will be provided in footnotes and date of page loaded will be shown in parentheses.



Contents

Abbreviations

ACC	**Alberta Chambers of Commerce**
AHSF	**Alberta Heritage Savings Trust Fund**
CEO	**Chief Executive Officer**
CPI	**Consumer Price Index**
C$	**Canadian Dollar**
EEA	**European Economic Area**
EFTA	**European Free Trade Area**
EU	**European Union**
GDP	**Gross Domestic Product**
HDI	**Human Development Index**
ICAA	**Institute of Chartered Accountants of Alberta**
LO	**Norwegian Confederation of Trade Unions**
NAFTA	**North American Free Trade Agreement**
NHO	**Confederation of Norwegian Enterprise**
NOK	**Norwegian Kroner**
OECD	**Organization for Economic Co-operation and Development**
PC	**Progressive Conservatives (Alberta)**
RABC	**Rural Alberta Business Centers**
REDA	**Regional Economic Development Alliances**
SDFI	**State's Direct Financial Interest**
UFA	**United Farmers of Alberta**

Figures

"The right to any subsea deposit of oil and gas is vested in the state. This is crucial when you want to manage the resources to the benefit of the people[1]"

- Ola Borten Moe, Norwegian Minister of Petroleum and Energy.

"Our wealth and freedom depend on the individual right to free enterprise[2]"

- Alison Redford, Alberta Premier.

[1] Vancouver Observer (03.0612): http://www.vancouverobserver.com/sustainability/2012/03/21/good-idea-
[2] Government of Alberta (03.06.12): http://alberta.ca/premieraddress.cfm

1 Introduction

Guided by Premier[3] Peter Lougheed (Progressive Conservatives, PC) the Alberta Heritage Savings Trust Fund (AHSF) was created in 1976 by the Alberta Heritage Savings Trust fund Act. The decision was made that 30 percent of Alberta's non-renewable resource royalties were to be saved in the fund each year and from 1976 to 1987 revenues were added to the fund. The AHSF is an oil and gas revenue savings fund meant to provide the province with financial stability from fluctuating oil and gas prices and savings for future generations, and stands today at C$15.4 billion[4]. In 1987, when Don Getty (PC) was Premier of the province, royalties were no longer added to the fund due to economic downturn. Instead the money, generated from royalties and taxes from the oil and gas industry, was used continuously to pay for the running costs of provincial health care, education, infrastructure and paying down of provincial debt[5]. As a result of this Alberta could afford, and chose to, put an end to capital tax, payroll tax, and sales tax[6]. For example Alberta citizens pay 8.5 percent less sales tax than the Canadian average, and are still able to maintain a high level of public welfare due to the spending of oil and gas revenues. Despite of the halt in further additions to AHSF in the late eighties, the province established a new savings fund in 2003. The new fund is named the Sustainability Fund, and is used to help offset years in which energy revenues are below budget due primarily to changes in commodity prices, such as the price of oil and gas[7]. Between 2003 and 2008 roughly half of Alberta's non-renewable resource revenues were stored in the Sustainability fund. Yet, since 2008 no further revenue has been added due to economic downturn[8].

In contrast, the Norwegian Petroleum Fund was established only four years after the halt of flow of capital into AHSF. In 1991, Norway inaugurated the Petroleum Fund and decided that net cash flow from oil production should be stored in the fund (Shiell and Busby

[3] The Premier is the head of government in Alberta (16.02.12): http://alberta.ca/aboutgovernment.cfm
[4] Government of Alberta (22.02.12): http://www.finance.alberta.ca/business/ahstf/index.html
[5] Canadian Broadcasting Corporation (05.01.12): http://www.cbc.ca/news/background/realitycheck/sheppard/20060324.html
[6] Alberta Economic Spotlight (17.02.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf
[7] University of Alberta (02.07.12): http://www.business.ualberta.ca/Centres/CABREE/Energy/~/media/business/Centres/CABREE/Documents/Energy/Oil/ZapisockySustainabilityFundBUEC.ashx
[8] Alberta Fiscal Plan (02.07.12): http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-overview.pdf

2008). However it was not until 1996 that money from oil and gas production was added to the fund. Revenue is preferably taken from the fund only for correctional purposes of deficits related to the production of oil and gas, and in 2001 a budgetary rule was established stating that ideally only 4 percent of net surplus is to be withdrawn from the fund each year to be used on running state costs[9]. In 2006 the fund changed its name to the Government Pension Fund of Norway. The main purpose of the Petroleum Fund, founded in 1991, was to counter the economic effects of the inevitable future decline in income from oil production, to smooth out the disrupting effects of highly volatile oil prices, and to save some of the wealth for future generations[10]. Today, and as the present name implies, the savings are primarily meant to pay for future pension expenses. This will help mitigate the tax burden on taxpayers with an expected increase of retirees in the coming years. Keeping a division between the general economy and the oil economy also diminishes the risk of overheating the economy, and as mentioned above, the fund functions as a safeguard against volatile oil prices. The solution of severing the national economy in two, keeping oil revenue apart from the general economy, has broad acceptance among Norwegian politicians and parties. The Progress Party carries the only ongoing argument in the Norwegian political landscape for increasing the spending of oil revenue above the 4 percent budgetary rule[11]. Yet in Alberta the provincial politicians have opted for a solution of "spend it all", running contrary to the Norwegian solution of fund saving.

The dependent variable for the research is *the allocation of natural resource revenue*. Alberta and Norway have chosen different paths concerning where they allocate the capital coming from production of oil and gas. As mentioned above, Norway leaves most of the revenue in a fund invested abroad, whilst Alberta spends it on running provincial costs, such as education, health care, and tax breaks. The Alberta solution breaches fundamentally with the Norwegian solution of keeping the two economies severed, to protect national industry, as a safeguard against volatile oil prices, and saving for future generations. On the other hand, the Norwegian solution breaches fundamentally with the Alberta solution of keeping

[9] Government of Norway (14.04.12): http://www.regjeringen.no/nb/dep/fin/tema/norsk_okonomi/norsk_okonomi/informasjon-om-handlingsregelen-.html?id=416335
[10] Bank of Norway (15.04.12): http://www.nbim.no/en/About-us/Government-Pension-Fund-Global/
[11] Progress Party's official webpage: http://www.frp.no/Vil+ha+ny+handlingsregel.d25-TMBHG1V.ips See also adressa.no (17.04.12): http://www.adressa.no/nyheter/innenriks/article1809991.ece

taxes low to encourage investment and consumption. Both models make sense economically in their own way, and the one may not be better than the other. Proof of this is seen in some of the most important independent variables that form the basis of the comparison. Alberta and Norway display close numbers in terms of employment, inflation (CPI), and GDP growth. Both cases perform well on these important economic factors. Yet they have chosen different paths concerning how to allocate revenue coming from natural resource production.

This thesis will look at the two models and compare them up against each other. This is important because it can provide better insight into possible and necessary changes that can be made to both models. The main purpose of the thesis is to give an overview of why the experiences differ in Alberta and Norway concerning where resource revenue is allocated. The different approaches taken by Alberta and Norway toward the allocation of oil and gas money will be examined along two dimensions: 1) political environment and 2) the macroeconomic consequences of the two models. The first dimension includes political culture and political institutional structure. These two variables are related, as will be shown, although they are in two different domains (Easton 1990: 35). Together they form a dimension, which in this thesis is defined as the political environment. The research question that will be answered along the first dimension is:

Why have the government of Norway and the provincial government of Alberta ended up with different policies for natural resource revenue allocation?

The second dimension is applied to provide an economic rationale to the analysis. Resource curse and Dutch disease theory form the theoretical background for the analysis of the macroeconomic consequences of the two models. Resource curse is related to unfavorable rent seeking on behalf of government and other economic actors. Dutch disease points to negative economic effects of factor movement and excessive revenue spending due to the availability of large natural resource revenues. The research question that will be answered along the second dimension of macroeconomic consequences is:

Why, or in what degree, are Alberta and Norway susceptible the resource curse and the Dutch disease?

2 Outline of the Thesis

In the beginning chapters the methodology and variables that will be employed in the thesis will be presented. In the chapters called *Case Description*, one for each case, pertinent features related to the analysis of Alberta and Norway will be presented. The chapter *7 Jurisdictional Autonomy* makes a brief argument about similarities between the two cases on the matter of jurisdictional autonomy, to show that Alberta and Norway are relatively comparable, not only on the presented independent variables, but also in this regard. In *8 Political Culture* the political cultures of the two cases will be presented along with an analysis of the differences' effect on the dependent variable. In the chapter *9 Political Institutional Structure* democratic corporatism and neo-pluralism will be presented along with the argument that these two structures lead to opposing outcomes on the dependent variable. Resource curse theory and Hall and Soskice's Varieties of Capitalism will be integrated in this chapter. The argument is that Alberta, with its pluralist structure, is more liable to the research curse than Norway, yet the Varieties of Capitalism approach shows that the economic policies of Alberta and Norway are rational if the aim is to maximize economic growth. Yet the chapter on the *10 Dutch Disease* provides a picture of Norway as more successful than Alberta in avoiding this phenomenon.

3 Methodology

The thesis will employ a comparative method and will build on George and Bennett's (2005) method of structured, focused comparison. This implies a standardized collection of data that will be guided by general questions about the research objective, and enables a structured comparison of the two cases at hand - Alberta and Norway. George and Bennett (2005: 69) define three requirements for case study research: 1) the research universe must be clearly identified, 2) the research objective must be well defined, and 3) variables of theoretical interest for purposes of explanation must be employed.

The universe of the research is the two cases *Alberta*, which is a province in Canada, and *Norway*, a sovereign country in northwestern Europe. It is important to note that the differences in terms of sovereignty may have implications on the analysis, thus case stretching could be a problem. Case stretching may occur when cases are defined too broadly to adequately fit the research design. Lijphart (1975: 172) notes that small-N studies are less prone to the dangers of case stretching because they provide possibilities to be more thorough, and thereby make sure that concepts, or cases, are not stretched. The jurisdictional differences between Canadian provinces and sovereign states will be accounted for to explain why the differences will have little effect on the main analysis of political culture and political institutional structure, and thereby avoid case stretching. Pertinent similarities and differences will be accounted for in thorough case studies.

The cases differ, most notably, on the dependent variable, which is the *allocation of natural resource revenue* where Norway has opted for fund saving while Alberta has not. As mentioned, the cases also differ on two related independent variables: political culture and political institutional structure. Together these two variables form what here will be called the jurisdictions' political environment. This dimension, the political environment, will be employed to explain the differences in policy outcome (dependent variable) in the two cases. The second dimension is the macroeconomic consequences of the two models. Resource curse and Dutch disease theory will be employed to investigate why, or in what degree, the two cases are susceptible to these two phenomena. The analysis will show that the level of resource curse and Dutch disease displayed in Alberta and Norway is linked with the degree of fund saving seen in the two jurisdictions. Thus, the political environment becomes pertinent in understanding the level of susceptibility the two cases show toward the resource curse and the Dutch disease, following this thesis argument that the political environment affects the allocation of oil and gas revenue.

3.1 Comparative Method

Kohli (1995) writes, “comparative politics is very much a problem-driven field of study”. The task, or the “problem”, of this paper is the differences in policy options seen in Alberta, Canada and Norway. In turn this means that the study has been selected, and thereby relies, on the dependent variable. The technique of choosing study objects on the dependent variable involves detecting a puzzle in outcomes and then determining what characteristics the cases have in common (Dion 1998). Dion (1998) notes that inferences drawn from cases selected on the dependent variable are suspect, and especially in large-N studies, because estimates will be biased. Nevertheless he contends that small-N analyses of cases selected on the dependent variable are perfectly acceptable. Following this, choosing the research question on differences seen on the dependent variable in Alberta and Norway is admissible.

A ‘most similar case’ comparison is suitable for the undertaking of the research as the two cases display similar numbers on important independent variables, as shown below. The ‘most similar case’ method focuses on, as the name implies, cases that are similar e.g. developed western democracies as Alberta and Norway. To mitigate the problem of ‘many variables, small-N’ Lijphart (1975) suggests that “focusing the analysis on comparable cases (i.e., cases that are similar in large number of important characteristics, but dissimilar with regard to the variables between which a relationship is hypothesized), which may be found within a geographical-cultural area…”, is preferable. Accordingly the thesis will, in accordance with Lijphart (1975) and George and Bennett (2005: 50), compare two cases that are similar on pertinent independent variables but differ on the dependent variable. What is clear by now is that the goal of the exercise is to discover why the two cases display different outcomes on the dependent variable with the appearance of a multitude of similar independent variables, and this, Castles (1982) contends, makes the approach of the ‘most similar case’ well suited for the task.

There are advantages and disadvantages to the use of comparative method. Mill’s (1843/1970: bk. 6, ch. 7) objection to the use of the method of difference is that sufficiently similar cases cannot be found. Przeworski and Teune (1970: 34) contend that the number of similarities between countries is finite; however "it will almost invariably be sufficiently large to 'overdetermine' the dependent phenomenon…" There is necessarily more than one factor that ranks Alberta and Norway in the same order, and George and Bennett (2005: 51) note that the omission of pertinent variables may entirely invalidate the research findings. Lijphart (1975), however, claims that this problem can be alleviated by the imaginative selection of other cases, and according to George and Bennett (2005: 254) inferences may not necessarily be invalidated by omitted variables. Yet the problem of overdetermination is a real one, and spurious variables may explain the outcome in the dependent variable. To mitigate the problem of overdetermination, thorough case studies highlighting important similarities and differences will be conducted on Alberta and Norway.

4 Variables

4.1 Variable operationalization

The independent variables that form the foundation for the comparison are hard numbers and this makes operationalization of the variables fairly straight forward; *population*, meaning that the tax bases are reasonably similar; *resource ownership*, meaning that both cases have ownership of their natural resources; *unemployment*, the jurisdictions display fairly similar numbers in terms of unemployment; *oil and gas production*, the total oil and gas production is somewhat similar leading to rather similar potential revenues from rents; *consumer price index (CPI)*, meaning that inflation rates have been similar in the two jurisdiction over the last twenty years (1990-2010); *GDP/cap* and *GDP/total*, these numbers are similar in the two cases and both models generate substantial economic growth. Both cases display fairly similar numbers on all of these variables. The cases differ substantially on the independent variable: *oil and gas rents.* This variable is important because it says something about the level of rent that the authorities of the two jurisdictions claim and, hence, how much revenue that is available for eventual fund saving. The explanation of the differences seen on this variable, the level of rent, is however not the objective of the paper but where the rent is *allocated*. Differences in this variable will therefore not have severe implications on the analysis.

Two related independent variables differ and these will explain the differences in policy outcome in Alberta and Norway. The two variables are: political culture described by the notion of western alienation in Alberta and by egalitarian individualism in Norway; and political institutional structure described by neo-pluralism in Alberta and by democratic corporatism in Norway. These concepts will be elaborated on in later chapters. *Macroeconomic consequences* are operationalized as the economic effects seen in the two cases in light of resource curse and Dutch disease theory. These concepts will also be explained in later chapters. The dependent variable is *the allocation of natural resource revenue* and is operationalized as where the government extracted oil and gas rents are allocated or spent. Further explanation on the dependent variable will be given below in chapter *4.3 Dependent Variable*.

4.2 Independent Variables

This section will give an overview, in numbers and words, of the independent variables that form the foundation for the comparison between Alberta and Norway. The numbers are fairly similar for the two cases and hence make them comparable. Please note that the numbers are taken from years varying between 2009 and 2012 due to availability.

Table 1

Independent variables	Alberta	Norway
Similar:		
Population:	3.7 million	5 million
Ownership natural resources:	Yes	Yes
Resource production/year/oil:	816 million barrels	766 million barrels
Resource production/year/gas:	111 billion scm.	106 billion scm.
Unemployment:	5.5%	3.2%
Consumer price index:*	2.65%	2.26%
GDP/total	C$286.6 billion	C$460 billion
GDP/cap:	C$77 459	C$91 000
Resource rents/year:**	C$8.4 billion	C$49 billion
Different:		
Political environment:		
Political culture:	Western alienation	Egalitarian individualism
Political institutional structure:	Neo-pluralism	Democratic corporatism

*1990 – 2010 average.
** The two cases differ substantially on the oil rents/year variable. This will not have great implications on the analysis as the research question of this paper is where the rent is being *allocated*, and not the *level* of rent being captured by the two governments.

References for **Alberta** numbers are found at: population (2011)[12]. GDP total[13] (2011). GDP/cap (Canadian average is C$47 605)(2010)[14]. Unemployment rate (2011)[15]. Oil production (2011)[16]. Gas production (2011)[17]. Revenue from non-renewable resources (2011)[18]. Consumer price index (1990 to 2010 average)[19]. Ownership: The Constitution Act of

[12] Statistics Canada (15.02.12): http://www40.statcan.gc.ca/cbin/ze/w40re.cgi/l01/cst01/demo02a-eng.htm
[13] Alberta Economic Quick Facts (15.02.12): http://www.albertacanada.com/documents/SP-EH_AlbertaEconomicQuickFacts.pdf
[14] Statistics Canada (15.02.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ15-eng.htm
[15] Alberta Economic Quick Facts: http://www.albertacanada.com/documents/SP-EH_AlbertaEconomicQuickFacts.pdf
[16] ERCB Report 2011 (15.02.12): http://www.ercb.ca/docs/products/STs/st98_current.pdf
[17] ERCB Report 2011 (15.02.12): http://www.ercb.ca/docs/products/STs/st98_current.pdf
[18] Finance Alberta (17.02.12): http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-revenue.pdf
[19] Statistics Canada (15.02.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ150a-eng.htm

1867 states in section 92A that: “exploration, development, taxation and export to other provinces of non-renewable natural resources, forestry resources and electrical energy…” these are all powers exclusive to the provincial legislatures[20]. The explanatory variables political culture and political institutional structure will be commented on in Part 3 of the thesis. References for **Norway** numbers are found at: population (2012)[21]. GDP total (2011)[22]. GDP/cap (2011)[23]. Unemployment rate (2012)[24]. Oil production (2010)[25]. Gas production (2010)[26]. Revenue from non-renewable resources (2009)[27]. Consumer price index (1990 to 2010 average)[28]. Ownership: Norway has full ownership right to natural resources found in its jurisdiction cf. the principle of national sovereignty. The explanatory variables political culture and political institutional structure will be commented on in Part 3 of the thesis.

Alberta and Norway display similar numbers on a range of variables. These variables show that the two jurisdictions have about the same *potential* for rent collection from the oil and gas industry, but they also show that Norway collects far larger rents than Alberta. Norway displays a lower unemployment rate than Alberta, yet Alberta’s rate of 5.5 percent is considerably lower than the Canadian average of 7.2 percent. The numbers further show that both systems prove economically effective with stable inflation, and high GDP numbers.

4.3 Dependent Variable

This section will provide an overview of the political and economic considerations taken toward the eventual policy option concerning *the allocation of natural resource revenue*.

[20] Department of Justice Canada (17.02.12): http://laws-lois.justice.gc.ca/eng/Const/PRINT_E.pdf
[21] Statistisk sentralbyrå, February, 2012 (17.02.12): http://www.ssb.no/befolkning/
[22] Statistisk sentralbyrå, February, 2012 (19.02.12): http://statbank.ssb.no/statistikkbanken/Default_FR.asp?PXSid=0&nvl=true&PLanguage=0&tilside=selecttable/hovedtabellHjem.asp&KortnavnWeb=nr
[23] Statistisk sentralbyrå, February, 2012 (19.02.12): http://ssb.no/
[24] Statistisk sentralbyrå, February, 2012 (19.02.12): http://ssb.no/
[25] Government of Norway (17.02.12): http://www.regjeringen.no/en/dep/oed/Subject/Oil-and-Gas/norways-oil-and-gas-resources.html?id=443528
[26] Statistisk Sentralbyrå (19.02.12): http://www.ssb.no/olje_gass/
[27] Norwegian Petroleum Directorate: http://www.npd.no/Templates/OD/Article.aspx?id=2942&epslanguage=en
[28] Statistisk sentralbyrå, February, 2012 (19.02.12): http://ssb.no/kpi/tab-01.html

4.3.1 Alberta

Until 1987 revenue from oil production was stored in the AHSF, however from that year on no revenue has been added to the fund. Alberta has used its natural resource wealth for continuing government business instead of fund-saving: building hospitals and schools, developing the incentives and infrastructure for a growing energy sector, keeping taxes low, and paying off its debt[29]. However, below is a statement by the government of Alberta that implies that there are uncertainties about today's fiscal priorities concerning revenue coming from oil and gas:

> (…) Albertans understand that we can't continue to rely on our energy revenue in the same ways that we have in the past. Budget 2012 signals that, in consultation with Albertans, this government will look at how savings are used, the appropriate use of borrowing for capital, and how to reduce reliance on resource revenues to ensure that we continue to have healthy savings. Since Alberta's non-renewable resource revenues represent income from a depleting public asset, it is essential that we become progressively less reliant on these revenues to fund ongoing programs. Over time, as our non-renewable resource base is drawn down, Alberta's non-renewable resource revenues will also enter a period of irreversible decline. This may be far in the future, but that day will eventually arrive.[30]

The government signals that it will look at the way savings are used today, and further, to reduce the reliance on resource revenues in the future. The statement also acknowledges the fact that petroleum is a non-renewable resource that one day will be depleted. Even so, Alberta has yet to begin putting more money into the AHSF, and according to CBC News the Alberta government remains focused on cutting Alberta's deficit and have no official plans to save more in AHSF[31].

In 1998 the Alberta government surveyed Albertans about their fiscal priorities and the survey results showed that Albertans prioritized reduction of taxes, debt elimination, and increased spending in priority areas over increased savings in the AHSF[32]. In a 2002 survey, 'It's your money'[33], Albertans reiterated their wish for tax rebates over increased

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[29] Canadian Broadcasting Corporation (04.04.12): http://www.cbc.ca/news/background/realitycheck/sheppard/20060324.html
[30] Government of Alberta (14.04.12): http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-overview.pdf
[31] Canadian Broadcasting Corporation (04.04.12): http://www.cbc.ca/news/canada/edmonton/story/2011/05/23/calgary-trust-fund-mintz.html
[32] Government of Alberta: http://www.finance.alberta.ca/business/ahstf/history.html
[33] Survey, "It's your money" (23.05.12): http://alberta.ca/albertacode/documents/itsyour.pdf

saving. These survey results correspond well with the fiscal policies of the Albertan government, and provide them with a sort of public support. Others, though, have voiced concerns about the way oil and gas revenues are managed. Below is a statement from the Alberta Chambers of Commerce:

> (…) ACC continues to urge for more stringent and disciplined control of spending with a view to placing a more substantial portion of royalty revenues – not only surpluses – into savings. It may be that the most appropriate action will be restoration of the Stabilization Fund to substantial levels. Long term, it is clear that greater savings are required to both provide short-term stability and long-term substitution of the resource revenue stream.[34]

Alberta Chambers of Commerce[35], a business organization representing more than 23 000 businesses, recommends that a greater portion of royalty revenues are saved, rather than spent. Their main arguments for increased savings are better short-term economic stability against volatile oil and gas prices, and long-term stability as oil is a non-renewable natural resource.

Combined, the government statement, the survey results, and the concerns voiced by the ACC show that there are disagreements in Alberta, both inside and outside government walls, about today's fiscal priorities of low fund savings. Nevertheless, as of today, the Alberta government does not save royalty and tax revenue coming from oil and gas production in the AHSF.

4.3.2 Norway

In Norway the Government Pension Fund Global is an integrated part of the Norwegian government's annual budget. Its capital inflow consists of all government petroleum revenue, net financial transactions related to petroleum activities, net of what is spent to balance the state's non-oil budget deficit[36]. In 2001 a budgetary rule was set to 4 percent mirroring the expected return from the fund:

[34] Alberta Chambers of Commerce (23.05.12): http://www.abchamber.ca/wp-content/uploads/2012/02/Alberta_Fiscal_Policy.pdf
[35] Alberta Chambers of Commerce (12.03.12): http://www.abchamber.ca/about-acc/
[36] Norges Bank Investment Management (01.04.12): http://www.nbim.no/en/About-us/Government-Pension-Fund-Global/

> The fiscal policy guidelines, in place since 2001, stipulate that fiscal policy shall be geared towards a gradual increase in the use of petroleum revenues. Over time, the structural non-oil central government budget deficit shall correspond to the expected real return, estimated at 4 per cent, on the Government Pension Fund - Global. The guidelines also allow fiscal policy to be used actively to counter fluctuations in economic activity (…) In a cyclical expansion, fiscal policy restraint relative to the spending rule is called for, whereas in a cyclical downturn higher spending of oil revenues is justified to stabilize the economy.[37]

The 4 percent rule is a guideline that can be deviated from. In economic downturns the spending may exceed 4 percent to counter cyclical downturns. Hence Norwegian authorities have substantial freedom to dip into the fund if considered needed.

> When the Norwegian economy experienced relatively low capacity utilization at the start of the millennium, the structural, non-oil budget deficit was well above the 4 per cent path. During the cyclical boom between 2006 and 2008, spending of petroleum revenues was below the 4 per cent path. To counter the adverse effects on the Norwegian economy from the current financial crises, spending of petroleum revenues has in 2009 once again been brought well above the 4 per cent path.[38]

The above statement from the Norwegian government demonstrates the room for financial maneuvering the fund provides for Norwegian policymakers. Without the restrictive features of the budgetary rule too much money could have been spent during the boom years between 2006 and 2008, with the probable result of unnecessary inflation. Throughout the financial downturn, however, the fund was utilized to counter the adverse effects the economy experienced.

> Although fiscal policy has an important role in dampening the impact of the international economic downturn on the Norwegian economy, it is important not to lose sight of the long term challenges resulting from an aging population. While the demographic structure in Norway has developed favorably in the last 20 years with respect to public finances, a projected increase in the share of elderly in the population will soon put an increasing pressure on public finances.[39]

[37] Government of Norway (24.03.12): http://www.regjeringen.no/upload/FIN/rapporter/Norwegian_economy_2009.pdf
[38] Government of Norway (24.03.12): http://www.regjeringen.no/upload/FIN/rapporter/Norwegian_economy_2009.pdf
[39] Government of Norway (24.03.12): http://www.regjeringen.no/upload/FIN/rapporter/Norwegian_economy_2009.pdf

In addition to being a buffer against external financial events, the fund will in the future be utilized as a source for pension payments. There is an expected increase of retirees in the coming years, and this will put increasing pressure on public finances. In 2006 the fund changed its name from the Petroleum Fund of Norway, to the Government Pension Fund Global. The primary purpose of the Government Pension Fund Global is to facilitate government savings necessary to meet the rapid rise in public pension expenditures in the coming years, and to support a long-term management of petroleum revenues[40].
The fiscal policy guidelines concerning petroleum revenues were presented by the Norwegian government in Report No. 29 (2000-2001)[41] and received support by a large majority in parliament. The support for the report displayed in parliament underlines the resoluteness of Norwegian authorities, across the political spectrum, in shielding the economy from excessive petroleum revenue spending, and saving for future pension expenses.

Contrary to the resilience of Norwegian policymakers on restricting the use of oil and gas revenue, the Norwegian voters seem to wish for a higher degree of spending, referring to public surveys. In 1997, 35 percent answered that today's spending is on par, while 56 percent felt that more oil and gas revenue should be used. In 2001 the numbers show 23 percent in favor of restrictive spending, while the number has increased to 67 percent for the people who want increased spending. Four years later, in 2005, the numbers still show that increased spending is a public priority with 34 percent (restrictive) and 56 percent (increased spending) (Narud andAardal 2007: 187):

Table 2

year	restricive use	spend more
1997	**35 %**	**56 %**
2001	**23 %**	**67 %**
2005	**34 %**	**56 %**

Even though parliament displays broad support for today's priorities it seems that the voters are in favor of larger spending of oil and gas revenue, than what is and has been spent. It is

[40] Government of Norway (25.05.12): http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441
[41] Found at (14.02.12): http://www.regjeringen.no/upload/FIN/rapporter/Norwegian_economy_2009.pdf

noteworthy that the numbers fluctuate with more than 10 percent, yet voters are apparently inclined to regularly allow a higher degree of spending.

4.4 Summary

This chapter has provided a brief background to the dependent variable: the allocation of natural resource revenue. The Alberta government admits that today's low levels of fund savings are unsustainable over time as oil and gas are non-renewable resources, but has yet to establish renewed saving schemes to the AHSF. Norwegian policymakers, on the other hand, have developed vivid policies aimed at preserving the oil and gas revenue for future expenses and as a safeguard against volatile oil and gas prices. With regard to the citizens, public surveys show that people in both jurisdictions favor a high(er) degree of resource revenue spending.

5 Case Description: Norway

Norway is a country in the northwest corner of Europe and has the jurisdictional autonomy of a sovereign country, unlike Alberta which is a province in Canada. Yet Norway and Alberta share similar features in terms of independence. Both have ownership of natural resources found on their territories, and both are responsible for health care, education, and infrastructure within their jurisdictions. This chapter will investigate features of Norway, as a sovereign European state, and look at aspects important for the analysis of why the country has opted to save resource revenue in a fund.

5.1 The Unitary State

The Norwegian constitution declares in article 1 that the state is indivisible:

> "(Article 1) The Kingdom of Norway is a free, independent, indivisible and inalienable Realm. Its form of government is a limited and hereditary monarchy."

Article 1's historical background was the fear of being divided by Swedish or other foreign conquerors (Smith 2009: 178). Today this historical background is of limited interest, however article 1 states that Norway is a unitary state, unlike Canada, and this cannot change without an amendment to the constitution. Norway is regulated by one constitution centralized on one level. The centralization of power is fortified by article 3, article 49, and article 88 in the constitution (Smith 2009: 178):

> (Article 3) The Executive Power is vested in the King, or in the Queen if she has succeeded to the Crown pursuant to the provisions of Article 6 or Article 7 or Article 48 of this Constitution. When the Executive Power is thus vested in the Queen, she has all the rights and obligations which pursuant to this Constitution and the Law of the Land are possessed by the King.
>
> (Article 49) The people exercise the Legislative Power through the Storting.
>
> (Article 88) The Supreme Court pronounces judgment in the final instance. Nevertheless, limitations on the right to bring a case before the Supreme Court may be prescribed by law.

Article 3 states that the executive power rests with the King, understood as with the government. Article 49 states that the legislative power is exercised by the people through parliament – the Storting, and article 88 certifies that the Supreme Court pronounces judgment in the final instance.

5.2 Monetary system

Norway is a sovereign state with its own currency and independent central bank. Bank of Norway provides the currency and the primary interest rate, which means that the Norwegian government must take this into consideration when budgeting[42]. Too high public spending could force the central bank into raising the primary interest rate that again could prove damaging to Norwegian industry. An increasing primary interest rate could also inflate the national currency and hence hurt exports. The Norwegian government decided in 2001 that the Bank should aim for a yearly inflation of 2.5 percent. This is to maintain steady price developments. The monetary policies of the Bank are also aimed at maintaining a stable exchange rate for the national currency (Opstad 2010: 295). The Bank's most important tool is the primary interest rate. If the Bank raises the interest rate, the result may very well be an appreciating currency. This will lead to cheaper imports as the appreciating currency reduces the costs on imported goods. On the other hand, the strengthening of the currency will make exports more expensive. Domestic industry will be left weaker to competition from abroad, and production may decline and lead to lower demands for labor.
Therefore Norwegian economic policies are aimed at keeping a stable inflation rate thus creating a steady production environment for Norwegian businesses. These realities have implications on the possibility of natural resource revenue spending.

5.3 Political Economy

According to the Norwegian government the operational implementation of Bank of Norway's monetary policy shall be aimed at low and stable inflation, defined at a 2.5 percent increase in consumer price index (CPI) over time. The monetary policy shall contribute to stabilizing output and employment developments and steady exchange rate developments.

[42] Bank of Norway (12.08.12): http://www.norges-bank.no/no/om/mandat-og-oppgaver/

The long-term goal of monetary policy is to provide the economy with a nominal anchor. Over time, low and steady inflation is an important precondition for growth and welfare[43].

> Monetary policy influences the economy with long and variable legs. Bank of Norway sets the interest rate with a view to stabilizing inflation at the target within a reasonable time horizon, normally 1-3 years. The more precise horizon will depend on disturbances to which the economy is exposed and how they will affect the path for inflation and the real economy ahead.[44]

The reason why it is important to control inflation is because its effects on the real economy and the politics of wealth distribution. In 1979 the Norwegian government inaugurated a long-term policy program to fight inflation. The high inflation seen in the seventies was unwanted and measures would be taken to keep it under control (Opstad 2010: 285), which the stated principles above show.

Further, the Norwegian government states that monetary policy regulation shall aim for stability in the domestic and international value of the Norwegian krone[45]. The operational objective for monetary policy is low and steady inflation however no target has been defined for the level of Norwegian krone exchange rate. Although, according to the Norwegian Government the Norwegian krone exchange rate developments are of considerable importance when determining interest rates:

> For a small, open economy, there is a close relationship between exchange rate developments and domestic inflation. Exchange rate stability can contribute to expectations of continued low inflation, which in turn influence both wage and price setting. Stable economic developments, with moderate price and cost inflation, are also a precondition for stable exchange rate developments over time.[46]

As this report shows, the Norwegian government has to take both internal and external factors into consideration. Inflation and the currency will be affected by government spending, and these two factors must be kept under control. The difference between Alberta and Norway on this account is that Norway has the tools, the primary interest rate and its

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[43] Government of Norway (25.03.12): http://www.regjeringen.no/en/dep/fin/Selected-topics/economic-policy/Monetary-policy.html?id=213274
[44] Bank of Norway (25.03.12): http://www.norges-bank.no/upload/import/front/rapport/no/ir/2004-03/ir-2004-03.pdf
[45] Government of Norway (25.03.12): http://www.regjeringen.no/en/dep/fin/Selected-topics/economic-policy/Monetary-policy.html?id=213274
[46] Government of Norway (25.03.12): http://www.regjeringen.no/Rpub/STM/20002001/029/PDFA/STM200020010029000DDDPDFA.pdf

own currency, to do something about it, while Alberta, being a province in a federation does not have that ability in the same degree.

5.3.1 Oil Revenue Spending

Østerud (2007) describes Norway as a deviant case among the European states in his chapter in *Norway in Transition Transforming a Stable democracy*, however according to Listhaug (2007: 130) Norway holds a favorable position compared to other European states. Norway has been a leading country on the UN Human Development Index (HDI) in resent reports. In addition to the successes in welfare and quality of life, Norway's management of its oil and gas fortune has been favorably described by Karl (1997) in *The Paradox of Plenty*. According to Karl (1997: 213-220) the Norwegian success in handling its oil wealth can be attributed to economic diversification and a strong state capacity to handle the pressures and risks of oil booms. It is an important task for Norway to avoid the resource curse. Oil provides Norway with great financial strength, and there is constant pressure on the Government to spend this money to keep the welfare state running (Røed Larsen 2004). The state can no longer claim it does not have the money to reform status quo. On the other hand, there are limited possibilities for larger production in the Norwegian real economy (Vale 2007: 449). If the conditions in the health sector, education and so on are to be improved there is a need for a greater labor force. Due to demographic changes including a greater proportion of retirees and people living off social assistance, there will be a constant lack of labor in the coming years, according to Vale (2007: 449). If the use of oil money is increased too much under these conditions there is a possibility for excess demand in the markets for labor and goods. This will lead to increased wages and production costs, which will put pressure on prices (Vale 2007: 450). If these factors increase more domestically than abroad it could be damaging for the national economy as a whole, as the Dutch disease is a prime example of (see Corden and Neary 1982).

Norway's economy is small by international standards, and is therefore open and exposed to developments in international markets. Because of this, Norwegian governments have not been free to pursue the policies they most wanted due to external constraints (Heidar 2001: 95). Also, the oil prices fluctuate vastly in the international market and this makes the Norwegian economy vulnerable to price vagaries. The politics of oil has therefore become central to the Norwegian decision-makers. Oil is a non-renewable resource and the earnings that it generates must be managed in a sound fashion. A starting point could be that the earnings do not belong solely to the generation that discovered the resources and hence revenue should be saved for generations to come (Shiell and Busby 2008). To maintain this goal only the return from the savings fund should be used as a budgetary rule. In Norway this budgetary rule is called 'handlingsregelen' and is currently set to 4 percent, 4 percent is the estimated return the fund will yield.

Alaska, as an example, decided that the oil revenue should be invested abroad. This way the dangers of the Dutch disease would be diminished. This is a rule also followed by Norway. The Pension Fund is solely invested abroad. Hence the name: The Government's Pension Fund Global.

5.3.2 Employment

> The main objectives of the Government's economic policy are to contribute to high employment, sustainable development, fair distribution of income and well-functioning welfare schemes. This requires sound policies with emphasis on environmental challenges, long-term management of national wealth and the development of a strong and sustainable public sector. The various aspects of economic policy need to work together to reach these objectives. [47]

Today the petroleum industry accounts for roughly one third of exports. However, the share of total employment only accounts for about 1 percent. This means that the petroleum industry is more important in financial and foreign policy terms than in employment terms (Heidar 2001: 103). Krugman and Wells (2009) state that unemployment is one of the evils of macroeconomics, and in accordance with this, Norwegian governments have pursued a policy of full employment since 1945. In 1954 an amendment to the Norwegian constitution made it a public responsibility to create conditions for full employment (Heidar 2001: 107). It is a fact that the Norwegian level of unemployment has been very low compared to similar countries. In the period between 1945 and 1980 the numbers fluctuated amid 1.5 and 3

[47] Government of Norway (28.07.12):
http://www.regjeringen.no/upload/FIN/rapporter/Norwegian_economy_2009.pdf

percent[48]. Since the seventies policies meant to alleviate unemployment have become more complex involving both micro- and macroeconomic measure (Heidar 2001: 108).

5.4 The Rents

This chapter will give a short introduction to the levels of rent captured by Norway. Primarily this paper does not look at the levels of rent captured by the jurisdiction, however the level of rent captured by the state acts as an important proxy for the general policy approach a state takes toward oil and gas development.

In contrast to the Alberta approach, Norwegian policies have focused on securing high levels of rent. The start of the Norwegian oil era was marked by the discovery of the Ecofisk field on the Northern Continental Shelf in 1969 by the Phillips Company (Lind and Mackay 1980: 14). In 1971 the 'Ten Oil Commandments' were established as main policy guidelines for oil development in the North Continental Shelf:[49]

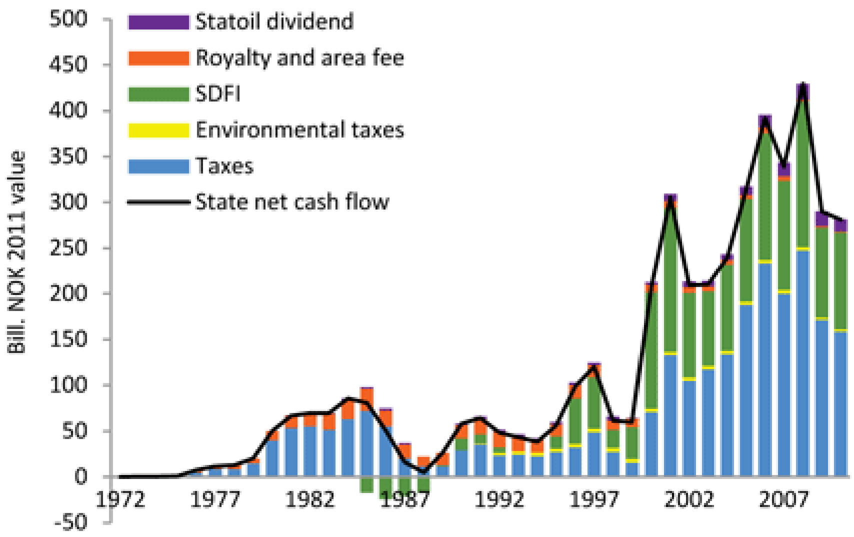
1. National supervision and control must be ensured for all operations on the NCS.
2. Petroleum discoveries must be exploited in a way which makes Norway as independent as possible of others for its supplies of crude oil.
3. New industry will be developed on the basis of petroleum.
4. The development of an oil industry must take necessary account of existing industrial activities and the protection of nature and the environment.
5. Flaring of exploitable gas on the NCS must not be accepted except during brief periods of testing.
6. Petroleum from the NCS must as a general rule be landed in Norway, except in those cases where socio-political considerations dictate a different solution.
7. The state must become involved at all appropriate levels and contribute to a coordination of Norwegian interests in Norway's petroleum industry as well as the creation of an integrated oil community which sets its sights both nationally and internationally.
8. A state oil company will be established which can look after the government's commercial interests and pursue appropriate collaboration with domestic and foreign oil interests.
9. A pattern of activities must be selected north of the 62nd parallel which reflects the special socio-political conditions prevailing in that part of the country.
10. Large Norwegian petroleum discoveries could present new tasks for Norway's foreign policy.

The tax system is an important component of the fiscal policy framework for deriving rent from oil and gas activities. Originally the state participated directly in oil production through Statoil, however in 1985 state participation was reorganized with the creation of The State's Direct Financial Interest (SDFI). The reorganization severed Statoil's share of licenses in two,

48 Statistisk Sentralbyrå (12.08.12): http://www.ssb.no/histstat/aarbok/ht-0603-252.html
49 Norwegian Petroleum Directorate (12.08.12): http://www.npd.no/Templates/OD/Article.aspx?id=3427&epslanguage=en

leaving the other part to SDFI. The arrangement with the SDFI involves the state paying a share of investments and operating costs in projects, and later receiving a matching share of revenues from the sale of production[50]. Total dividends from Statoil and SDFI are major sources of income for the state, and in 2009 Norway's total revenue from non-renewable resources was NOK279.8 billion (approximately C$49 billion)[51].

Figure 1



Source: Norwegian Petroleum Directorate, found at: http://www.npd.no/en/Publications/Facts/Facts-2012/Chapter-3/

Figure 2 shows the net government cash flow from petroleum activities since the seventies. Revenue has decreased the last couple of years, but is nevertheless substantially higher than the government extracted rents in Alberta. The Norwegian system of rent collection has eventually led to an investment fund of approximately C$630 billion[52].

5.5 Summary

Norway, as opposed to Alberta, is a sovereign unitary state. Policy measures must be taken concerning value of the currency, inflation, and employment. External events and pressures affect all the policies concerning these numbers. Still, Norway has managed well economically through several years and is regularly positioned in top spot of the United

[50] Government of Norway (23.06.12): http://www.regjeringen.no/en/dep/oed/Subject/state-participation-in-the-petroleum-sec/the-states-direct-financial-interest-sdf.html?id=445748
[51] Norwegian Petroleum Directorate (12.04.12): http://www.npd.no/Templates/OD/Article.aspx?id=2942&epslanguage=en
[52] Norges Bank Investment Management (23.06.12): http://www.nbim.no/no/Investeringer/markedsverdi/

Nations HDI. Regarding oil and gas revenue a government owned oil fund has been established receiving net revenue of dividends from production.

6 Case description: Alberta

Alberta is a province in Canada. Through being a province in a federation it does not have the same jurisdictional autonomy as a sovereign state, like Norway. Yet the Canadian provinces have substantial independence e.g. they have ownership to natural resources found on their territories, and they are responsible for health care, education, and infrastructure. The provinces also have the possibility to loan money and hence establish debt. This chapter will investigate features of Alberta, as a Canadian province, and look at aspects important for the analysis of why the province has opted not to save resource revenues in a fund.

6.1 Canadian Federalism

In a federal system, as in Canada, the central government cannot abolish the provincial legislatures, and some legislative powers belong solely to the provinces within their jurisdictions. These powers are guaranteed by the division of powers in the constitution (Boase 1995: 152). Canada is a federation with two distinct levels of government: the federal government, which is countrywide, and the ten provincial governments. The provinces are linked together by the Canadian Crown, but the federal parliament and the provincial legislative assemblies are independent of each other with respect to legislative authority. This means that for example foreign affairs lie entirely with the federal government, while education and health care are part of the provincial jurisdictions (Banting and Simeon 1983). According to Jackson, Jackson and Baxter-Moore (1986: 190) a need for division between central and provincial powers in Canada became apparent in the nineteenth century. The vast distances of Canada combined with lack of transportation and communications among the provinces, meant that some independence had to be granted to local entities. The federal principle was accepted as a protection for provinces and language groups, even though Canada's first Prime Minister John A. Macdonald preferred a unitary state. However, Yukon and Northwest Territories remain under legal control of the federal government. The third territory Nunavut is in the beginning stages of the process of governing themselves. Since the passage of the Constitution Act of 1867 Canada has had a federal system of government, which means that there are two levels of government that can legitimately pass laws that affect Canadian citizens. The federal government can legislate for all Canadians in the ten provinces and three territories, and the provincial governments can pass laws that are binding to the citizens of that particular province. It is the Constitutional Act that sets out the constitutional division of powers, and the enumerated powers, which are primarily in section 91 and 92 of the act, are referred to as the "jurisdictions" of the two governments (Boase 1995: 151).

Within the provinces the local governments have a relationship to the provincial governments resembling that of a unitary state. Local governments may pass laws binding to their constituents, but this power has been delegated from the provincial authorities and could be withdrawn (Boase 1995: 152).

6.1.1 The Constitution Act of 1867

The Constitution Act of 1867 codifies how the legislative authorities are divided between Canada and the provinces. Sections 91, 93(4), 94, 100, 106, and 132 list the powers exclusive to the Parliament of Canada. Powers exclusive to the provincial legislatures are listed in sections 92, 92A, and 93, and sections 94A and 95 name the concurrent powers.
Of special interest are the provincial powers. According to section 92A in the Constitution Act 1867[53]:

> "(1) In each province, the legislature may exclusively make laws in relation to (a) exploration for non-renewable natural resources in the province; (b) development, conservation and management of non-renewable natural resources and forestry resources in the province, including laws in relation to the rate of primary production therefrom; and (c) development, conservation and management of sites and facilities in the province for the generation and production of electrical energy."

> "(4) In any province, the legislature may make laws in relation to the raising of money by any mode or system of taxation in respect of (a) non-renewable natural resources and forestry resources in the province and the primary production therefrom, and (b) sites and facilities in the province for the generation of electrical energy and the production therefrom."

In Alberta 81 percent of mineral rights are owned by Albertans through the provincial government. The federal government and private actors share the remaining 19 percent[54].

[53] Government of Canada (14.04.12): http://laws.justice.gc.ca/eng/Const/Const_index.html
[54] Royalties in Alberta (14.04.12): http://www.albertaroyaltyreview.ca/more_info/background.pdf

The basis of federal power rests in section 91[55]:

> "It shall be lawful for the Queen, by and with the Advice and Consent of the Senate and House of Commons, to make Laws for the Peace, Order, and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces…"

Section 91 applies as a general rule except for the rights assigned to the provinces under section 92 of the Act. In addition, section 91 lists 29 specific items that are exclusively belonging to the federal government including: trade, commerce, banking, credit, currency, taxation, citizenship, and defense (Jackson, Jackson and Baxter-Moore 1986: 192). However, the Act clearly assigns ownership of resources to the provinces, but gives the federal government a major voice in sales of resources through its control of inter-provincial and international trade (ibid.).[56]

6.1.2 Equalization Payments

On average for the Canadian provinces transfers from the federal government finance more than 20 percent of provincial spending. The transfers are general rather than being targeted to specific provincial expenditures, and have two main components: the first component is an equalization system, which consists of unconditional payments to the provinces whose fiscal capacity is below the national norm; the second component is a set of transfers meant to contribute to financing the provinces' provision of health, welfare, and post-secondary education (Boadway 2008: 109-110). In Alberta there is a belief that federal equalization payments "rob" the Albertans, as Alberta receives no equalization payments[57]. The province receives no equalization payments due to its large revenue collection from oil and gas. As mentioned above, the equalization payments, or transfer payments, is a federal policy to diminish economic differences between provinces, and is meant to ensure that all provinces have approximately the same ability to provide public services[58]. This is codified in

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[55] Government of Canada (14.04.12): http://laws.justice.gc.ca/eng/Const/Const_index.html

[56] Found at (21.03.12): http://www.mapleleafweb.com/features/provincial-government-canada-organization-institutions-issues

[57] See Unlimitedmagazine.com (15.04.12): http://www.unlimitedmagazine.com/2011/04/why-everything-your-uncle-says-about-transfer-payments-is-wrong/

[58] Government of Canada (14.04.12): http://www.fin.gc.ca/fedprov/eqp-eng.asp

subsection 36(2) of the Constitution Act 1982[59]. Boadway (2008: 110) recognizes that while the equalization system equalizes the poor provinces up, it implicitly equalizes the rich provinces down. However, to keep fiscal disparities between provinces at a minimum is seen as an important principle, and equalization payments is the only fiscal arrangement that enjoys constitutional status.

6.2 Monetary system

Alberta utilizes the Canadian dollar and hence has no currency of its own or independent provincial bank. Bank of Canada provides the currency and the primary interest rate, which means that Alberta is part of a large monetary system operated from Ottawa[60]. For the provinces this means that economic policy (i.e. provincial spending) will not necessarily affect the national currency in relation to foreign currencies, most importantly the American Dollar. Neither will high or low provincial spending necessarily provide reason for the Bank of Canada to increase or lower the primary interest rate. This provides the provinces with substantial room for maneuver when it comes to economic policy. Classic economic theory says that high spending of public money eventually will inflate the economy (see Barro and Grilli 1994). This can be damaging to industry and workplaces in a globalized world when products may be produced cheaper elsewhere (Mankiw 2002: 238-255). The Canadian dollar, the currency used in Alberta, however, is not necessarily greatly affected by the provincial economic activities in Alberta because the currency has a volume much greater than the Albertan economy. In theory this may allow higher public spending with a smaller risk of inflating the currency. If the province should choose to spend a high amount of public money on welfare such as education, health care, and infrastructure it has a diminished risk of inflating the economy and seeing the currency appreciate. Alberta has chosen a path of low taxation, however public spending is maintained due to revenue collected from the oil and gas industry. Politically and economically this makes sense because the province can lower taxes on production and consumption, and still provide public education and healthcare. In turn, this has formed an environment for high economic activity and growth, referring to the numbers above.

[59] Government of Canada (17.04.12): http://laws.justice.gc.ca/eng/Const/Const_index.html
[60] Bank of Canada (17.04.12): http://www.bankofcanada.ca/about/what-we-do/

6.3 Political economy

6.3.1 Business Investment in Alberta - the Importance of Oil and Gas Industries

The Government of Alberta reports[61]: Alberta's business investment as share of GDP is higher than the Canadian average, and in comparison to other provinces Alberta had the largest investment share of GDP between 1981 and 2009. This is mainly due to the capital-intensive nature of resource production, and resource rich provinces have a tendency to have higher business investment as share of GDP. The main source of business investment in Alberta has been the oil and gas industry due to the industry's capital-intensive nature. The oil and gas industry contributed more than 50 percent on average to total business investment in Alberta from 2000 to 2010. As a consequence of this, increases and decreases in oil and gas investment dominate the total investment picture in the province. Hence, due to the volatility of investment in oil and gas industries, Alberta business investment is very volatile.

Over the years investment in the oil and gas industry have continued to grow, however its composition has changed. The investment growth from 1991 to 1996 was mainly due to increases in conventional oil and gas investments. During this time, the conventional sector, as opposed to non-conventional sector of oil sands, played a larger role in total investment as can be seen by the higher number of conventional oil and gas wells. Production from the conventional wells also dwarfed production from non-conventional methods in the early nineties and peaked in 2006. The decline in conventional oil and gas investment after 2006 was partly due to fall in the price of natural gas, and the depletion of conventional oil reserves. This made non-conventional oil production an important source of business investment in the province[62].

6.3.2 Oil Sands

The business investment in Alberta is, as mentioned, concentrated in oil and gas. In the early nineties conventional oil drove the investments until reserves declined or were depleted.

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[61] Alberta Economic Spotlight (22.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf

[62] Alberta Economic Spotlight (22.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf

However, in the early 2000s regulatory changes and a favorable price environment stimulated investment in non-conventional oil production. Non-conventional oil became a more profitable energy investment option as a result of the introduction of the 1997 generic oil sands royalty regime that established industry-wide royalty costs for oil sands producers. The new framework took into account the capital-intensive nature of oil sands development and the generic royalty regime, and combined with an increase in oil price from 1999 to 2008, this permitted investments to grow at a higher rate than in the early nineties[63].

The oil sands royalty regime is called generic because equal rates and rules apply for all oil sands projects. The regime is based on revenue minus cost (net revenue), and royalty is paid to the government at one or two rates depending on the project's financial status. The generic royalty regime was created to make it easier for developers to evaluate investment plans and hence encourage investment in the oil sands. The regime is based on legislation, rather than individual agreements with the Crown, which used to be the norm prior to the 1997 royalty regime[64]. The Generic Royalty Regime shows Alberta's commitment to encourage investments in the non-conventional oil industry. By producing a standard set of rules for royalty payments the investors can evade the uncertainty of Crown negotiations. This makes it easier for potential producers to estimate revenues before production begins.

6.3.3 Recent Global Recession:

The global recession and the decrease in commodity prices in 2009 led to a fall in total oil and gas investment. This resulted in a decrease in both conventional and non-conventional investment. Estimates by Statistics Canada show that there was a 61.3 percent increase in drilling activity in 2010, however there was a further decrease in investment in the oil and gas extraction industry. The decrease was mainly due to a fall in conventional oil and gas investment. Looking ahead, non-conventional oil is expected to be the main source of investment in the industry and a key driver of business investment in Alberta. The business investment in Alberta fluctuates, and this affects the economic growth. Not surprisingly, increases in business investment place upward pressure on GDP while decreases in business investment apply downward pressure. In the 1980's business investment declined in Alberta

[63] Alberta Economic Spotlight (22.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf
[64] Alberta Oil Sands Royalty Guidelines (22.04.12): http://www.energy.alberta.ca/OilSands/pdfs/GDE_osr.pdf

and this slowed economic growth in the province. After 1989 real business investment grew on average at a rate higher than real GDP growth. From 1990 until today business investment together with export demand and personal consumption, have been the drivers of the economic growth in Alberta[65].

These numbers show that the Alberta economy is sensitive to external events. The global recession beginning in 2008 had a great effect on the investment climate in the province. Lacking a substantial savings fund, like the Norwegian government pension fund, the Alberta economy will remain vulnerable to volatile oil prices making budgeting a daunting task for provincial politicians. This notion is underlined by the Alberta government[66], which reports that Alberta's investment climate is expected to remain volatile because of its reliance on oil and gas.

6.4 The Funds

6.4.1 The Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund (AHSF) was established in 1976 when the Alberta Heritage Savings Trust Fund Act received Royal Assent. The AHSF's portfolio consists of investments in private and public companies, bonds, real estate, and infrastructure investments both domestically and abroad. The investments are balanced on two concepts: diversification and a long term planning horizon[67]. This is to manage risk and to secure greater returns. Initially the fund received 30 percent of net revenue from oil production in Alberta, however in the early eighties this was altered to 15 percent (Tsalik 2003: 27). In 1987 further additions to the fund were halted altogether[68], and as of December 2011 the fund is valued at C$15.4 billion[69]. The rationale behind the establishment of AHSF was to save for future generations and to provide income to support government liabilities like health care and education. Yet, as Alberta's debt grew in their pursuit for economic

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65 Alberta Economic Spotlight (22.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf
66 Alberta Economic Spotlight (22.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf
67 Government of Alberta (26.04.12): http://www.finance.alberta.ca/business/ahstf/faqs.html
68 Government of Alberta (04.08.12): http://www.finance.alberta.ca/business/ahstf/history.html
69 Government of Alberta (04.08.12): http://www.finance.alberta.ca/business/ahstf/index.html

diversification, the legislature decided to use fund income for the reduction of debt, and also to finance ordinary government expenditure. The AHSF was created through a regular legislative process hence the management structure, investment rules, and organization can be amended by a simple majority vote in the legislature. During the years of its existence the AHSF has altered directions regularly in response to shifts in oil revenues and legislative priorities (Tsalik 2003: 26).

6.4.2 The Sustainability Fund

In 2003 the government of Alberta created The Sustainability Fund. The key proposal that led to the establishment of the fund came from the Institute of Chartered Accountants of Alberta (ICAA)[70]. The ICAA argued that the creation of a 'Stability Fund' would help ease the effects of constantly changing energy prices. The recommendation was to use the fund to cover budget deficits as opposed to being used on further spending. This would create a stable operating environment, where the government could be less concerned with fluctuating resource revenues[71]. Today, the Sustainability Fund sets aside funds to offset the cost of emergencies and disasters, to pay for natural gas rebates, to manage unexpected declines in budget revenues, and to fund settlements with First Nations[72]. Every year all unallocated surpluses go to the Sustainability Fund[73] and from there it can be reallocated to other accounts, if the fund's balance exceeds C$2.5 billion. Yet since 2008 no funds have been added to the Sustainability Fund due to economic downturn.

6.5 Rents

In Alberta the provincial government grants the right to explore and develop natural resources. In exchange of this, the exploring companies pay royalties to the provincial government. For freehold right owners, typically farmers who have minor oil wells on their

[70] Institute of Chartered Accountants of Alberta: http://www.albertacas.ca/Home.aspx
[71] University of Alberta (04.08.12): http://www.business.ualberta.ca/Centres/CABREE/Energy/~/media/business/Centres/CABREE/Documents/Energy/Oil/ZapisockySustainabilityFundBUEC.ashx
[72] Alberta Financial Investment and Planning Advisory Commission (04.08.12): http://www.finance.alberta.ca/publications/other/2008-0131-fipac-final-report.pdf
[73] University of Alberta (04.08.12): http://www.business.ualberta.ca/Centres/CABREE/Energy/~/media/business/Centres/CABREE/Documents/Energy/Oil/ZapisockySustainabilityFundBUEC.ashx

property, the provincial government charges an annual tax for production. The Alberta royalty and tax system consists of:[74]

Royalty System

-The bonus bid system is the public offering of petroleum and natural gas resources owned by Albertans. The mineral rights are issued through a competitive sealed-bid auction system and the rights are leased to the highest bidder.

-Royalties are levied based on the value of production.

Taxes

-A freehold mineral tax is levied on the value of oil and natural gas production from non-Crown (freehold) mineral rights. The rates vary for natural gas and oil,

-Companies pay corporate income taxes to both the provincial and the federal governments, and

-Local municipal taxes are charged where applicable.

Between 1994 and 2008 the Alberta government collected on average C$6 billion in royalties and taxes from non-renewable resource production. This includes conventional oil, oil sands, and natural gas. Royalty revenues peaked in 2009 with C$12 billion, but fell substantially to C$7 billion in 2010 and C$8 billion in 2011. The numbers below picture the net revenue collected from royalties and taxes from oil and gas production by the Alberta government between 1990 and 2010[75]:

Table 3

Year	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996/97	1997/98	1998/99	1999/00
net revenue in millions	C$2 687	C$2 023	C$2 183	C$2 817	C$3 378	C$2 785	C$4 034	C$3 778	C$2 368	C$4 650
year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
net revenue in millions	C$10 586	C$6 227	C$7 130	C$7 676	C$9 744	C$14 347	C$12 260	C$11 024	C$11 915	C$6 768

This shows the volatility of resource revenues, and how the ability of revenues collected from such resources to fund government programs fluctuates. Between 2003 and 2008 roughly half of the collected revenue from oil production was saved in the Sustainability

[74] Royalties in Alberta (14.08.12): http://www.albertaroyaltyreview.ca/more_info/background.pdf
[75] Government of Alberta (14.08.12): http://www.energy.gov.ab.ca/About_Us/2564.asp

Fund, however with the onset of the global recession in 2008 Alberta was no longer able to save for future needs[76]. All of the non-renewable resource revenue, as well as substantial amounts from the Sustainability Fund, were spent on running provincial costs. The government of Alberta estimates that non-renewable revenue will continue to grow in the coming years and that it will provide C$16 billion in 2015[77].

6.6 Summary

Alberta is a province in the Canadian federation and has limited, yet extensive, jurisdictional autonomy. Important decision authority concerning the right to natural resources found on their territory, and the revenue coming from its production, is left to the provinces, in addition to the duty to provide health care, education, and infrastructure. The economy of the province is highly dependent on oil production and international oil prices, and this makes for fluctuating budgets. Oil and gas rents are low, and the AHSF has been left to itself without further adding's since 1987. In 2003 the Sustainability Fund was established meant to provide financial stability, yet since 2008 no revenue has been added to the fund due to economic downturn.

[76] Alberta Fiscal Plan (14.08.12): http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-overview.pdf
[77] Alberta Fiscal Plan (14.08.12): http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-overview.pdf

The following sections will feature the main analysis of the independent variables political culture and political institutional structure. The first chapter in this part, *7 Jurisdictional Autonomy,* will comment on important differences concerning jurisdictional autonomy and argue that the cases are fairly similar in this regard. The following chapters, *8 Political Culture* and *9 Political Institutional structure*, will analyze these factors influence on eventual policy outcome. A discussion on resource curse susceptibility and market systems will also feature in these chapters. The last chapter is on the *10 Dutch Disease* and the occurrence of this phenomenon, in the two cases, will be analyzed.

7 Jurisdictional Autonomy

An important distinction between Alberta and Norway is, as mentioned, the differences in jurisdictional autonomy. Alberta's government is in certain respects subordinate to the federal government in Ottawa, and is part of a larger federation. Norway, on the other hand, is a sovereign unitary state in Europe, as described previously. These differences have implications on the policy options on economic matters available to the two cases. Before the analysis of the main explanatory variables, the key economic implications concerning the differences in jurisdictional autonomy will be addressed.

International political economy is focused on how market pressures constantly lead to reallocation of productive activities internationally, and how states try to intervene by bending market forces to their favor (Schwartz 1994: 4). States were able to control market forces in most of the post-World War II period, and hence it can be assumed that they will be able to do so in the future. According to Schwartz (1994) though, this assumption is wrong. There is a convergence of the world economy towards what was seen in the late nineteen century and, thus, away from that of the mid-twentieth century. International movement of labor, capital, commodities, and firms is descriptive of the global economy of the late twentieth century e.g. within trading blocs like the North American Free Trade Association (NAFTA) and the European Economic Area (EEA). Accordingly, states' options and possibilities of controlling market forces diminish. Alberta is a part of NAFTA through being a province in Canada. This means that NAFTA legislation will affect Alberta government policies and the strategies of firms located in Alberta. According to the Economist[78] Canada's main reason for entering NAFTA was to maintain healthy bilateral connections with the United States, and a former Canadian government official commented that "NAFTA holds back bilateral ties". From this it can be understood that Canada is not entirely content with the restrictions on economic policies that come with NAFTA. However, trade between Canada and Mexico has grown fivefold since the inauguration of NAFTA in 1994 to US$21 billion today, so there are extensive economic benefits related to NAFTA membership.

Norwegian government policies and firm strategies must adapt to EEA legislation to remain competitive in the European Union (EU) internal market. Norway has the possibility

[78] The Economist (05.05.12): http://www.economist.com/node/13110404

to refrain from implementing EU legislation in domestic laws. However this option has yet to be practiced. A general fear of retaliation by the EU and possible exclusion from the EEA are some of the reasons for this. The Data Retention Directive is an example of EU legislation that has been ratified by the Norwegian parliament despite hard criticism from parts of the political opposition, civil society, and even within the coalition government. Some critics point to the Norwegian authorities' fear of standing up against the EU. In 2011 the Labor Party national congress voted no to the implementation of the EU Postal Directive[79], which would abolish the Norwegian Postal service's monopoly on providing postal services. If the Norwegian government in the future decides to say no to the Postal Directive it will be the first time Norway refrains from the implementation of an EU directive.

As the examples above illustrate neither Norway nor Alberta are shielded from external events and pressures. By being a small state Norway's economy relies heavily on global and regional markets. The same applies to Alberta as a relatively small jurisdiction within the Canadian federation. Alberta does not have the same possibilities as Norway to enter, or refrain to enter, international trade agreements since foreign policy of this sort lies with federal government in Ottawa. Yet, as shown above, this does not necessarily mean that Norway is more autonomous than Alberta in these matters as the relative international strength of Norway is weak. Norway, as Alberta has to conform to decisions made in Ottawa, often needs to follow decisions made in Brussels and elsewhere. Following this, the argument can be made that both Alberta and Norway are *de facto* influenced by far-reaching economic policies made outside their jurisdictional limits.

A pertinent distinction between Alberta and Norway is that Alberta is part of a larger monetary union while Norway is not. This means that Norway has to take developments in the value of the national currency into consideration when determining economic policy. As argued in previous chapters, excess domestic spending of natural resource revenue may lead to an appreciating currency. The Norwegian government has therefore developed polices aimed at protecting a stable value of the krone. In Alberta, these considerations are of less concern, because excess spending is less likely to make the Canadian dollar appreciate and hence larger spending may be viable. Yet Macdonald (2007) upholds that the high spending of resource revenue seen in Alberta has made the Canadian dollar appreciate, most notably,

[79] Norwegian Broadcasting Corporation (10.05.12): http://www.nrk.no/nyheter/norge/1.7588168

toward the American dollar. This implies that even though Alberta is part of a larger monetary union it is not entirely shielded from currency fluctuations due to its own fiscal priorities. Nevertheless it must be expected that the effect would be even greater if Alberta was sporting its own currency, as Norway does. Yet for Norway, founded in macroeconomic theory presented above, it makes sense to restrain the use of revenue coming from oil and gas[80].

Another factor relevant for the comparison between the two jurisdictions is the matter of the Central bank concerning the primary interest rate. In Norway, the Central bank provides the Norwegian krone and sets the primary interest rate. As mentioned earlier, Norwegian policies aim at an inflation target of 2.5 percent. This is mainly to protect domestic business against international competition, and thereby secure Norwegian employment. A probable result of overly spending of oil and gas revenue is a rise in the primary interest rate. Accordingly, the option of excess spending should be controlled. Alberta does not have its own Central bank because it is a province in Canada. High spending of oil and gas money is therefore less likely to instigate an interest rate increase by the Bank of Canada, since the Bank of Canada takes economic developments concerning the whole federation into account when determining its actions.

7.1 Summary

Following the arguments above Alberta and Norway are both influenced by external events when it comes to economic policy making, and both have to pay attention to the effects on their currencies related to public spending. The matter of the primary interest rate, though, seems to be a greater concern for Norwegian policymakers than for their Albertan colleagues.

[80] For a more elaborate discussion on this matter see chapter *10 Dutch Disease*.

8 Political Culture

In this chapter the political cultures of Alberta and Norway will be described and analyzed with regard to the implications the differences in culture have on the dependent variable. The fact that Alberta and Norway differ in the respects presented in the previous chapter is arguably part of the explanation of why the policy options concerning the allocation of resource revenue differ in the two cases. Yet it does not explain why Alberta has opted not to save some of the vast wealth coming from oil and gas for future generations and as protection against vagaries in world markets.

8.1 Operationalization

As mentioned in the introductory chapter, political culture may be one of the important factors explaining the variances seen on the dependent variable. Obviously there are intra-culture variations in any community, thus an analysis relying on culture as an explanatory variable should have solid theoretic and empiric backing. In an attempt to define political culture as a concept Pye (1965: 7) argues that there is a limited and distinct political culture in any specific community and that this provides meaning and probability to the political process. Verba (1965) contends that political culture is empirical beliefs and values that define the sphere where political action takes place. Almond and Verba (1989: 12) defines political culture as the specific political orientations, meaning attitudes toward the political system and attitudes toward the role of the self in the system. They further argue that through the role of culture it is possible to locate special attitudes and tendencies for political behavior in varying parts of the political system. In an attempt to define political culture as an explanatory variable Wildavsky (1987) claims that “support for and opposition to different ways of life, the shared values legitimating social relations (here called cultures) are the generators of diverse preferences”. He further contends that individuals use political cultures to develop their preferences. From this perspective, political culture becomes a pattern that shapes our preferences, and is thereby not reduced to an echo of something else. This way political culture can answer how preferences are developed, in opposition to rational choice theories where preferences are givens (Østerud 2007a: 198).

Following this, this thesis employs political culture as related to the general notion of the state-capital relationship in Norway and Alberta, one which is fitting for both decision makers and citizens, in an attempt to show why Alberta and Norway differ on the question of government fund saving. In accordance with Wildavsky (1987), this paper argues that the political cultures of the two jurisdictions shape the preferences of its citizens and policymakers on the question at hand, and is therefore a relevant factor in explaining the differences seen in policy outcome.

There are certainly cultural differences within Alberta and Norway, but a basic level of similarity is assumed. Arguably the presence of cultural cleavages in a society does not invalidate the occurrence of essential patterns that can have political consequences. On that account the political cultures of Alberta and Norway will be presented along with the argument that these differences have important effects on the dependent variable.

8.2 Norway: Political Culture

Norway was freed from Danish rule in 1814, and went into a union with Sweden that lasted until 1905 when full independence was achieved (Østerud 2007b: 2). Heidar (2001) writes that the 91 union years were marked by a careful effort to build a mass-based, unitary culture. Two dimensions that define Norwegian culture are a principle of egalitarianism and a sense of community (Østerud 2007b: 3). These two cultural factors contributed to a state-capital relationship where an active role of the state in economic activities was legitimized and foreign capital was looked upon with skepticism. In turn, Norwegian culture is defined, as mentioned in the introductory chapter, as "egalitarian individualism" (see Gullestad 1992; Eriksen 1993) where equality and integrity of the individual are highly valued. Egalitarian individualism expresses itself through the rejection of formal social hierarchies, and the social democratic ideology expresses such values of equality, which again are embedded in the welfare state (Andersen 1984 in Eriksen 1993).

> Equality is part of the Norwegian self-image. In cultural terms, this is often seen as a Nordic trait: "the passion for equality". Even within the Nordic area, Norway has a special history of strong egalitarian tradition (Heidar 2001: 167).

The egalitarianism found in Norway has stimulated and justified several active government roles and policies including: legal provision for equality between genders, a progressive taxation system and a heavily subsidized rural sector amongst others (Gullestad 1992). According to Andreß and Heinen (2001), a by-product of egalitarianism is citizen supportiveness of governmental action in various activities, including industrial activities. Eckstein (1966: 78) contends that Norwegians have a higher, overarching attitude of solidarity in that they in fact display in many features of their behavior a deep sense of community. The Norwegian sense of community is primarily political, but the political sentiments and behavior patterns that they encompass are expressive of much more general attitudes and modes of acting (Eckstein 1966). Egalitarianism and the sense of community include notions about the shared responsibilities between the state and the citizen, including the state role in economic affairs as a means to provide for the Norwegian community, and attitudes towards foreign capital. Both dimensions have withstood the test of time and are recognized as core elements of modern Norwegian political culture (ibid.). Christensen (2003) emphasizes the prevalence of the core ideas of state-led economic development in Norwegian society, in a discussion of the central state tradition in Norway. The development of the central state settled a legitimate and active role in economic affairs of the government, amounting to "a regulated capitalist state where social justice was guaranteed by the state reallocation of collective goods" (Christensen 2003: 168). Andersen (1993) draws on government engagement in hydropower and large-scale industry sectors in the post-World War II period to exemplify Norway's tradition of regulation and state intervention in economic activities, and how this was viewed as the most sensible option for policymakers. When oil and gas discoveries were made in the North Sea in the sixties, state control and contribution was already common in several Norwegian industries (Lind and Mackay 1980), and Heidar (2001) notes that there has traditionally been a strong state involvement in the Norwegian economy. The welfare state is robust, and is institutionalized through an active state where core politics involve keeping unemployment low and maintaining a fair geographical distribution of wealth.

There exists empirical evidence to back the notion of egalitarianism and the role of the state in Norway. In 1999 a national survey about social inequality was conducted by

Lund, Frisvold, and Kalgraff Skjåk[81], and these are some of the findings: (the numbers presented are total, not distinguishing between age, gender, or education. The possible answer “do not know” has been left out).

Table 4

	"strongly agree" or "agree"	"strongly disagree" or "disagree"	"neither"
Large differences in income are necessary for a country's prosperity:	16.0%	54.5%	25.1%
Differences in income in Norway are too large:	71.5%	13.5%	13.6%
It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes:	59.9%	19.0%	17.7%

Table 5

	"absolutely" or "probably"	"probably not" or "absolutely not"
The government has a responsibility to provide jobs for everybody:	85.4%	11.3%
The government is responible for the living standard of the unemployed:	88.9%	4.9%

The answers given provide a vivid picture of Norwegians wish for social equality and government responsibility in the process of reaching this goal. Especially the numbers about government responsibility toward providing jobs and the living standard of the unemployed are unambiguous. More than two thirds think income differences in Norway are too large, yet only 59.9% believe the state should be responsible for the reduction of the perceived differences, and as many as 36.6% answered negatively or ambiguously to state responsibility on this matter. This implies that there are sentiments wishing for less state interference. Yet, seen together the numbers underline the proclaimed notion of egalitarian individualism and its features of equality and state involvement.

Table 6

Is it just or unjust - right or wrong - that people with higher incomes can:	"very just" or "just"	"very unjust" or "unjust"	"neither"
buy better health care than people with lower incomes?	18.7%	63.6%	16.1%
buy better education for their children than people with lower incomes?	14.7%	66.4%	16.2%

Table 7

	"much higher" or "higher"	"much lower" or "lower"	"same"
Do you think people with high incomes should pay a larger share of their income in taxes than those with low incomes, the same share, or a smaller share?	74.4%	1.4%	22.1%

The numbers in table 6 and 7 show a clear public inclination toward typical social democratic policies of universal health care and education. However 18.7 percent think it is “very just”

[81]Norwegian Social Science Data Services (22.09.12): http://www.nsd.uib.no/rapport/nsd_rapport119.pdf

or “just” that people with higher incomes should have the possibility to spend this on better health care. Apparently there is a fairly high number of Norwegians who do not perceive the model of universality found in egalitarianism, to be the preferred option. Yet almost two thirds have the opinion that individuals with high incomes should pay a larger share of their income in taxes than others. Seen together, the numbers presented above arguably provide empirical evidence about the notion of egalitarian individualism in Norwegian society, although the numbers show that there are sentiments wishing for less state interference and more economic ‘individualism’.

8.2.1 Political rule/government

In 28 of the last 40 years Norway has been governed by the Labor Party, or a coalition led by the Labor Party. In March 1971 the Social Democrats took office and maintained its position throughout the seventies, only interrupted by a short visit by the centrist parties that lasted one year from October 1972 to October 1973. The dominance by the Labor Party in the seventies coincided with the period when oil was discovered in the North Sea. Hence the Labor Party was instrumental in the development of guidelines for petroleum ownership and development. The idea was public ownership and that the potential revenue should benefit the population of Norway through public spending. The policies of the Labor Party are aimed at creating and maintaining a coordinated market system where natural resources, industry, manufacturing, science, and labor were utilized to the common good for land and people (Nordby 1993: 7).

According to the Labor Party’s political platform a steady economic environment is imperative for the development of Norwegian businesses and work places. The party also states that petroleum revenue provides society with incredible wealth and that the creation of the Government Pension Fund Abroad helps share the wealth among citizens today and through generations[82]. The Labor Party argues that redistribution of wealth is about equality and fairness, but that redistribution also aids economic growth. They claim that the Norwegian economy is hallmarked by high economic growth and equal distribution of

[82] Norwegian Social Democratic Party (17.06.12): http://arbeiderpartiet.no/Politikken/Hovedsakene/Trygg-oekonomisk-styring/Spoersmaal-og-svar

earnings[83]. To achieve this combination of economic redistribution and growth the Labor Party launched, in the decades following World War II, a form of corporatism where both labor and capital had to submit to social control (Nordby 1993: 7). The notions inherent in egalitarian individualism, as noted above, support the stated principles of the Labor Party of fair distribution of wealth in society and a state owned petroleum fund and forms a rather vivid connection between Labor Party policies and political culture.

Arguably, the acclaimed cultural features presented above allow the state to interfere in the economy with policies intended to improve its operations. High income tax levels, a state owned oil-company and high taxes on production for external operating companies are descriptive of the policies. For example are income tax levels (oil adjusted) in Norway 45.4 percent compared to an OECD average of 33 percent[84]. For the oil and gas producers lower tax rates on production would leave more autonomy to the market, but on the other hand debilitate the state's ability to extract rents and coordinate operations. The extraction of oil and gas rents on production is imperative for the state's ability to redistribute the revenues from oil production, thus the high levels of rent are coherent with the equality inherent in the notion of egalitarian individualism. The Labor Party arguably personifies central features of Norwegian culture and this may explain their resilience to win elections on a regular basis and thus to maintain government control. It can therefore, by referring to the survey results presented above, be inferred that the close state-capital policies pursued by the Labor Party have vast public backing. Røed Larsen (2004: 21) contends that the public is content with government involvement in the economy because they see visible positive economic results from the arrangements. The positive effects are visible on macroeconomic indicators such as unemployment, inflation, and GDP/cap, as presented in chapter *4.2 Independent Variables*.

Macroeconomic theory tells us that overly spending of petroleum revenue will lead to real appreciation, which in turn could lead to higher unemployment rates, higher inflation rates, and then slower GDP/growth (Vale 2007). The room for maneuver is therefore limited for Norwegian policymakers contemplating where to allocate the extensive revenues coming from oil and gas production, unless the labor base can be increased accordingly. The solution

[83] Norwegian Social Democratic Party (17.06.12): http://arbeiderpartiet.no/Politikken/Hovedsakene/Trygg-oekonomisk-styring/Spoersmaal-og-svar
[84] Statistisk Sentralbyrå (17.06.12): http://www.ssb.no/emner/12/01/skattoecd/

of severing the economy in two, keeping oil and gas revenue apart from the general economy, was consequently the preferred choice of Norwegian policymakers. This option has an obvious economic rationale, as argued above, but it also has mainstream public backing through the cultural features of egalitarian individualism. From this it can be inferred that government fund savings is coherent with the underlying cultural context of Norway, because it helps maintaining a preferred level of economic equality within society.

8.3 Alberta Political Culture

8.3.1 Western Alienation

A central feature of Albertan political culture is the notion of western alienation (Gilsdorf 1979; Gibbins 1979), which is a conception of marginalization and alienation from the central decision-making authorities of politics and economics. The concept can be summarized as follows:

> Western alienation is best seen as a *political ideology of regional discontent*. By this I mean that western alienation embodies a socially shared set of interrelated beliefs with some degree of cultural embodiment and intellectual articulation, with a recognized history and constituency, and with recognized spokesmen and carriers of the creed (Gibbins 1980: 169).

There is empirical evidence to back the notion of western alienation in Alberta, historically (see Gibbins 1979, Gilsdorf 1979), and in present day (see Lawson 2005). Lawson (2005) focuses on alienation defined as “the alienation of citizens in western Canada from political representatives, processes of political decision-making, and institutions of representative government”. This research shows that western alienation is an important component of Albertan political culture. There is contempt for government intervention, especially federal, but also provincial, and this has resulted in a notion of alienation from the federal decision makers in Ottawa.

A large part of western alienation is the lack of trust in government. A survey from 1968 denotes that Albertans score low in terms of trust in both federal and provincial government (Simeon and Elkins 1974). Further evidence is found in Gibbins (1979) study. In the questionnaire Albertans were confronted with:

Table 8

the economic policies of the federal government seem to help Quebec and Ontario at the expense of Alberta:	"strongly agree" or "moderatly agree"	"strongly disagree" or "moderatly disagree"
	73.6%	**9.6%**

The answers given here clearly show that Albertans feel that federal policies are geared to the benefit of Ontario and Quebec at the expense of Alberta. In a more recent study by Pickup, Sayers, Knopff, and Archer (2004), the researchers show that Albertans have a negative inclination toward government and that these inclinations have actual political connotations. This is arguably part of the explanation of why public ownership of natural resources historically has been rejected in the province.

As described previously the province' ownership rights to natural resources is constitutionally guaranteed, and Albertans contribute with more federal taxes than their fellow countrymen through equalization payments. However, federal tax-rates are equal in all the provinces, and some of this tax revenue is canalized back to the lesser well off provinces to ensure a certain degree of economic equality between provinces. Alberta receives no equalization payments due to their large revenues from natural resource production. Thus, Alberta is equalized down (Boadway: 2008: 110). This has in turn led to a belief that the federal government is robbing Albertans, as their federal tax payments are being implemented elsewhere to keep other provinces running[85]. When confronted with the statement below, found in the same 1979 Gibbins study presented above, Albertans answered:

Table 9

If one part of Canada suffers we all suffer, and if one region prospers we all share in the prosperity:	"strongly agree" or "moderatly agree"	"strongly disagree" or "moderatly disagree"
	32.1%	**56.8%**

These numbers underline the notion of the alienation Albertans feel toward the rest of the federation. Only 32.1 percent strongly or moderately agree that they share the rest of Canada's prosperity. However indirectly, the revenue from Alberta's substantial natural resources is being redistributed to other provinces through the equalization system. The general resentment to contribute through equalization payments strengthens the view of

[85] See Unlimitedmagazine.com (15.04.12): http://www.unlimitedmagazine.com/2011/04/why-everything-your-uncle-says-about-transfer-payments-is-wrong/

western alienation where ownership of natural resources is an important feature. The resentment to government in western alienation contributes to fortify the belief that Albertans are being robbed of their oil and gas fortune. Seen together these features inherent in western alienation lock in and reinforce unwillingness and inaptitude to save resource revenue for future generations and expenses, because the public has a negative inclination toward government. By looking at western alienation as a premise for the low fund savings in Alberta, it is hardly surprising that the option of high savings has been left to secure tax rebates for provincial corporations and individuals.

8.3.2 Prairie Provinces

The Canadian prairie-provinces (Alberta, Saskatchewan, and Manitoba) are often said to have their own unique political culture, different from other provinces in Canada (Norman 1972: 25). There are naturally different views and orientations within given jurisdictions, but Alberta, and the other prairie provinces, distinctly exhibit values like individualism, free market economy, and a contempt for federal government interference in provincial political life. Gibbins (1979: 143) describes it:

> A strong belief in the spirit if not necessarily the practice of free enterprise, a concomitant belief in the desirability if not the actuality of small, fiscally conservative governments, a tolerance if not affection for one-party government, and an intense commitment to provincial control of energy resources.

According to the literature Albertan political culture is in short: a belief in the right to free enterprise, a sentiment of western alienation, and mistrust in government. Free enterprise and government distrust point in a direction of leaving most of the revenue to be handled directly by the market and it can thus be argued that a general distrust in government has debilitated the prospects of substantial fund savings.

The Government of Alberta reports[86]: The Alberta government has a low-tax policy intended for long-term economic benefits for its citizens. Alberta has competitive levels of business taxes compared to other business environments in North America. In 2012 the combined federal/provincial corporate income tax rate is 25 percent, which is a 1.5 percent reduction from 2011. In comparison the average corporate income tax for the United States

[86] Alberta Economic Spotlight (12.04.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf

is 39.2 percent in 2011. Alberta has no provincial capital tax, no payroll taxes, and no sales taxes, combined with a publicly funded health care insurance system. It is the natural resources that form the foundation of Alberta's economy, and this is combined with a positive business climate based on low taxation to attract investment to encourage Alberta businesses to compete with international businesses abroad. For the past 20 years Alberta has had an average annual growth (GDP) of 3.2 percent, and this number shows that Alberta leads all other Canadian provinces in terms of GDP growth in this period.

The report by the Government of Alberta underlines the belief in small government and low taxation, and that this is the best way to encourage investment and stimulate economic growth in the province. Low taxes encourage business and entrepreneurship, and this resonates well with the ideal of free enterprise and the policies of the ruling Alberta Progressive Conservatives (presented below). The PC have remained in power uninterrupted since 1971. Arguably, their resilience to stay in government is fortified by their liberal policies that personify the notions inherent in western alienation. Albertans have been asked in surveys how they preferred the resource revenues handled and said yes to tax rebates at the expense of increased savings, as mentioned above. By keeping taxes and royalty rates low resource revenue produced in the province befalls in a large extent to companies and individuals, thus keeping the revenue away from government control, coherent with the policies of the Alberta Conservatives and the answers given by the Alberta citizens.

The Fraser Institute (2006)[87] rates Alberta as the freest economy in Canada, and in a 2008 report: as the second freest of all Canadian provinces and American states[88]. This comes as no surprise considering the underlying cultural context of western alienation combined with the liberal policies of the ruling PC party. A low tax environment is well suited to attract capital hence the low tax policies pursued by the Alberta government leave little room for rent maximizing and domestic control. The necessity of investment capital and the policies it requires, has in turn led to low royalty rates and little revenue available for fund saving. The state-capital relationship seen in Alberta obviously restrains the options available to policymakers in the province when it comes to tax-rates and royalty levels, and this self-inflicted confinement obviously reinforces the difficulty of obtaining larger resource rents.

[87] The Fraser Institute (29.03.12): http://oldfraser.lexi.net/media/media_releases/2001/20010626.html
[88] The Fraser Institute (29.03.12): http://www.freetheworld.com/efna2011/Complete-Publication-CA.pdf

8.3.3 Political rule/government

Government in Alberta is remarkably constant, and the province' political history can be divided into four distinct periods; 1905-1921 *Liberals*; 1921-1935 *UFA (United Farmers of Alberta)*; 1935-1971 *Social Credit*; 1971-present *Conservatives* (Bell et al. 2007). The PC have won consecutive elections since 1971, which means that Alberta has the highest level of one-party dominance in the post-war era in Canada. Alberta also has the third highest ranking in the country when looking at the proportion of the popular vote that goes to the winning party, with an average of 53 percent between 1945 and 2003. Today the province is still governed by the PC. The PC's policies are aimed at minimizing taxes and thereby creating an environment for economic growth through a free enterprise economy. The Alberta PC state in their principles that the creation of jobs and economic growth is best served by a free enterprise economy[89], and thereby their political principles are coherent with the cultural traits of free enterprise and the notion of western alienation.

Dacks (1986) explains Alberta politics by concentrating on western alienation with federal institutions combined with identification with a single dominant commodity (grain, then oil and gas). The idea is that wealth derived from natural resources found in the province should stay in the province, and this transcends social and political class and unites people from a variety of occupational categories. Dacks (1986) contends that the outside threat mutes the normal class divisions and politics that would otherwise bring about a competitive party system. Following this Alberta politics are largely affected by the notion of western alienation. The contempt for government in western alienation can in part explain why Alberta has chosen to halt payments into the AHSF, as a means to keep large oil and gas revenues out of government hands. Further, in Gibbins (1979) survey 79 percent agreed to the statement: "Governments in Canada are making the taxpayers pay for too many unnecessary services". This underlines the belief that private enterprises and corporations are better suited to handle and invest oil and gas revenue.

[89] The Alberta Conservatives (19.07.12): http://www.albertapc.ab.ca/admin/contentx/default.cfm?h=10378&PageId=10382

8.4 Political Culture as an Explanatory Variable

This chapter has described important aspects of the political cultures in Alberta and Norway, and analyzed their effect on the outcome on the dependent variable. The aspects, or dimensions, are applied in an attempt to understand and explain why Alberta and Norway have chosen different paths in relation to oil revenue fund saving. The analysis does not reveal the precise causal mechanism at work, but merely propose that political culture is a likely explanatory factor. Lehman (1972: 68) contends that "political culture and culture in general are most productively treated as specifying variables for understanding political behavior and structural changes". Therefore, Lehman (1972: 58) argues, that as a specifying variable, political culture has only a moderate explanatory effect. Yet Berman (2001: 241) argues that preferences and constraints of the environment contribute in determining political behavior. Following Wildavsky (1987), political culture can provide the answer to how preferences are developed – why people want what they want – thus political culture functions as an explanatory variable to why some policy options are preferred over others. When individuals make important choices, these choices are at the same time choices of culture where shared values legitimate dissimilar patterns of social practices, Wildavsky (1987) argue. By employing Wildavsky's definition on how political culture explains decision makers and citizen's preferences or wants, it is possible to prescribe causal property to the concept, because it implies that wants are shaped by culture and are not givens, as opposed to the rational theorist position.

The evidence presented above suggests that political culture, the beliefs and values, shape the wants of policymakers and citizens related to the appropriate role of the state in economic affairs, and in turn this makes certain policy options more wanted than others. Following this, political culture creates a context that provides opportunities and constraints for policymakers and is thus a relevant factor in explaining policy choices. Following Almond and Verba's (1989) definition of political culture mentioned previously, it becomes clear that the display of different attitudes toward the political system and its parts seen in Alberta and Norway have actual political connotations.

8.5 Summary, Comparison and Findings

Political culture is a pertinent explanatory variable as it defines the underlying cultural context of the polity in which the political organization occurs. Political cultural dimensions shape the wants of citizens and political decision makers and thereby function as a set of restrictions and opportunities. Where Albertan culture is characterized by free enterprise and distrust in government, Norwegian culture is characterized by unity where equality and integrity of the individual are highly valued, which in turn legitimizes an active state in economic activities. As argued above these cultural features are largely carried through politically by the Alberta PC and in Norway by the Labor Party.

This thesis argues that the dissimilarities have actual political implications that can be seen on the differences in policy outcomes in the two jurisdictions. The Albertan political culture disallows government interference and at the same time champions free enterprise and low taxes. All of these features naturally lead to low government rents on oil and gas production when they are carried out politically. At the same time they imply low levels of government-administered fund saving due to the low levels of rent, but also because the general resentment to government found in Albertan political culture disallows government control over the natural resource revenue. The Norwegian political culture is, contrary to Albertan political culture, more open to government interference in the economy. The presented literature underlines this notion, and is further strengthened by the survey answers given by the Norwegian public. In Norway, due to its cultural traits as described above, the political culture has paved the way for the establishment of a government owned oil and gas revenue savings fund, because government interference in the economy is wanted as a safeguard against societal inequality. Apparently Norwegian political culture differs substantially to the Alberta political culture on the question of level of state interference in the economy.

There are however some signs of correlation between the two. The citizens in both cases seem to wish for a high(er) degree of public resource revenue spending by referring to the numbers presented in chapter *The Dependent Variable*. Due to the high levels of rent, compared to Alberta, the Norwegian government needs to restrict spending to avoid overheating the economy cf. Krugman and Wells (2009). Apparently the economic considerations, related to excessive natural resource revenue spending, is not in the same degree a concern of the public as for the government in Norway. Alberta, on the other hand, may allow high natural resource revenue spending due to the low rents. The difference between Norway and Alberta on this account is the derived rents that in Norway amounts to C$49 billion (2009), and in Alberta only C$8.4 billion (2011). The low rents in Alberta makes it possible to spend the derived revenue, as opposed to Norway, where the high rents necessitates government fund saving to avoid overheating the economy. This fact makes it possible to accommodate the public wish for both free enterprise and government spending in priority areas in Alberta. In Norway the wish for equality and unity is accommodated by high rents for the public good, however the large revenues make it impossible to spend all of it. Because the government evidently have funds available for public spending it apparently leads to a public wish for higher spending, which the government is unable to provide due to macroeconomic considerations (Vale 2007: 449).

Despite this similarity of public wish for high natural resource revenue spending, the perceived cultural differences lead to different "wants" within the jurisdictions, which again lead to different policy outcomes. The Albertan wish for free enterprise and low government interference provide low incentives for government fund saving, whereas the Norwegian wish for equality provides an incentive for high government rents and subsequent government fund saving. It seems clear from this that the political cultures of Alberta and Norway shape the wants of its citizens and policymakers in distinctly different ways. Interestingly the two different approaches have led to approximately the same results on important economic indicators. This indicates that both liberal and coordinated economic policies can lead to a positive economic environment. Yet Alberta and Norway have chosen different paths in relation to fund saving. As argued above, this can be understood by the differences in political culture.

9 Political Institutional Structure

This chapter will provide an overview of the political institutional structures of Alberta and Norway and an analysis of the implications these differences have on the dependent variable. Above it has been argued that political culture explains why Norway and Alberta differ in their policy choices concerning natural resource allocation, yet political institutional structure must also be expected to have an effect in this respect and should be accounted for (Pye 1968).

In order to employ institutional structure as an independent explanatory variable it is necessary to discriminate it from other explanatory variables, and in this thesis to discriminate it from political culture. However, to differentiate political culture from political institutional structure is not a straightforward task:

> If the concept of political culture is to be effectively utilized, it needs to be supplemented with structural analysis, but the difficulty is that political structures can be seen on the one hand as products reflecting the political culture, while on the other hand they are also important 'givens' which shape the political culture. (Pye 1968: 224)

Following Pye (1968) it is unclear whether culture reflects structure or the other way around. Yet, what seems clear from the statement above is that the two concepts affect each other, and that both should be accounted for in a political analysis.

Almond and Verba (1989: 32) claim that any polity can be described and compared with other polities by looking at its structural-functional characteristics and its cultural characteristics. They relate political structural *patterns* to political cultural *tendencies* and claim that this way the assumption of congruence between structure and culture can be avoided. "Rather than assuming congruence, we must ascertain the extent and character of the congruence or incongruence, and the trends in political cultural or structural development that may affect the 'fit' between culture and structure" (Almond and Verba 1989: 33).

The analysis below will, in addition to look at the independent role of political institutional structure, draw connections between cultural tendencies and structural patterns in an attempt to show that they "fit" each other. This, though, makes for difficulties in determining whether culture, structure, or both, are responsible for the differences in outcome on the dependent variable. In an attempt to differentiate between political culture and political institutional structure this thesis employs a definition of political culture as the underlying context where values and norms, and subsequently wants, are shaped, while political institutional structure relates to the formal institutions concerning the relationship between policymakers, parties, and interest groups. These are related, as noted by Pye (1968), because they affect each other but are also distinguishable in the way noted.

9.1 Operationalization

According to Easton (1990: 62) political systems have many kinds of structures and these structures have implications on how political systems operate to produce the kind of policy output that they do. The most common usage of the term structure in political systems refer to the "the way power is organized and distributed among the political authorities and between them and the members of the political system as a whole. Structure here clearly refers to the stable patterns of power relationships among the major individual and collective actors in a political system" (Easton 1990: 64). Apter (1971: 21) contends that political structure refers to criteria in terms of which choices about the distribution of goods and benefits are made. Critical realists contend that the actions of social actors are a product of pre-existing structures (Lewis 2002). Of course pre-existing structures lack the capacity to initiate actions or to make things happen on its own, but it does affect the course of events in the social world by influencing the actions that people choose to undertake. Actors or agents are the only efficient causes in the world, however there are additional material causes such as structures, Lewis (2002) argues. Following the critical realist position, as presented, the structure of a political system in a particular jurisdiction becomes important in explaining why they produce similar or different policy outcomes.

It is important to note that structure is conceptualized as the restraints and opportunities that political institutions provide, and that party and interest groups are the main components that will be utilized in the search for reasons behind the differences in policy outcome in the two cases. The forthcoming analysis will show that political institutional structures have an independent, however affected by political culture, effect on the policy outputs in Alberta and Norway.

9.2 Norwegian corporatism

Norway is described as one of the most corporatist countries in the world by Schmitter (1979: 21). Lijphart (1999: 177) refers to Norway as one of the best examples of societal corporatism. Yet, Nordby (2004: 107) contends that pluralism is gaining the upper hand in Norway, and that organizations are fairly free to express and pursue their concerns through means such as lobbying. The state has lost considerable power relating to their societal control, as a result of this. Further evidence is found in Guldbransen et al. (2002: 226) and their survey of 2000 top leaders of Norwegian institutions and organizations. They find that, through their position, 71 percent of leaders (CEO's, etc.) have attempted to influence public decisions with importance to their businesses activities. In a survey among Norwegian members of parliament conducted in 1995, 68 percent reported that they spoke weekly with business and industrial organizations, and 54 percent reported that they were addressed weekly by trade unions (Rommetvedt 2003: 159). These numbers represent a contrast to the acclaimed centralized organization of Norwegian politics. Accordingly, corporatist structures in Norway are not as dominant as they once were (Nordby 2004: 107), yet Norway is still comparatively corporatist related to similar countries. The corporatist representation has been partly replaced by the lobbyism seen in pluralism (Rommetvedt 2007: 53), although corporatist segments remain. Ingebritsen (2010: 363) contends that Katzenstein's framework (described below) is still relevant when explaining the policy choices of small European states, and Christensen (2007) upholds that the system incorporates many different interests, but is nonetheless dominated by the major labor unions and employer's unions due to their large resources and number of members. On that account democratic corporatism will be employed as a theoretical reference point on the political institutional structure in Norway.

9.2.1 Global Economy

In the 1970s inflation became the preeminent problem facing developed economies (Hall and Soskice (2001: 3), and from this an approach based on neo-corporatism was developed (see Berger 1981; Goldthorpe ed. 1984). The neo-corporatist approach is generally associated with a state's capacity to bargain with employers and trade unions regarding wages, working conditions, and social or economic policy. Following this, a state's capacity for neo-corporatism depends on the centralization or concentration of the trade union movement (Hall and Soskice 2001: 3). An alternative approach to neo-corporatism has been developed by Katzenstein (1985) in *Small States in World Markets,* and according to Katzenstein (1985) small states respond differently to economic change, than their larger counterparts.

> Avoiding policies of protection and of structural transformation equally, they combine international liberalization with domestic compensation. The result is flexible policies of adjustment that, on questions of industrial policy, avoid both the indifference of some large states and the ambition of others (Katzenstein 1985: 39).

However, the industrial policies pursued by small states differ among them with some taking a relatively active approach, and others a relatively passive approach. Yet, what they have in common is a goal of securing a liberal international economy, because domestic protection undermines the competitiveness in world markets, and the adoption of protectionist policies sets a bad precedent in domestic policies. Also, protectionism may lead to retaliation by larger and less vulnerable states (Katzenstein 1985: 40).

For example Norway stand outside the EU, but is a part of the EEA. This allows Norway to participate in the EU's internal market without a conventional EU membership[90]. In return, Norway is obliged to adopt all EU legislation related to the single market, except laws on agriculture and fisheries. According to the Norwegian government it is in Norway's own interest to help reduce disparities between countries in the EEA, because an improved functioning of the internal market is to the benefit of Norway[91]. In a small country like Norway, it is imperative for the nation's import and export industries to be part of the EEA as Norway is the EU's fourth most important partner[92]. Accordingly since the position of small states is intrinsically weak, these states have an interest in lowering tariffs and strengthening multilateralism (Katzenstein 1985: 40). However, small states have occasionally formed their own trading unions e.g. the European Free Trade Area (EFTA)[93], but these arrangements were constructed in a way as to not inhibit trade with the rest of the world (ibid.). It must be

[90] See the Agreement on the European Economic Area (12.08.12): http://efta.int/~/media/Documents/legal-texts/eea/the-eea agreement/Main%20Text%20of%20the%20Agreement/EEAagreement.ashx
[91] Norwegian government (12.08.12): http://www.regjeringen.no/en/sub/europaportalen/eea-grants/qa_eeagrants.html?id=589010
[92] European Commission (12.08.12): http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/norway/
[93] EFTA official site (22.08.12): http://www.efta.int/free-trade.aspx

noted in this regard that Great Britain, which is hardly a small state, was part of EFTA from 1960 until it left the union in 1973. Katzenstein (1985: 44) notes that the small states pursuit of economic liberalism is due to their awareness that political autonomy and economic prosperity are best served by a diffusion of dependence on a larger market, and that this is the preeminent way to protect and increase domestic welfare. This can in part explain the Norwegian authorities' unwillingness to leave EU legislation unimplemented and away from national laws.

As described above, the small European states are reliant on the international markets and thus promote international free trade. This liberal approach necessitates domestic compensation for vulnerable national economic actors, thus policies designed to provide compensation for instabilities in investment and employment are common in the small European states (Keohane 1984: 15). For example, during the sixties Norwegian businesses were allowed to deposit 20 percent of taxable profits in the Central Bank, to be invested in periods of slack demand. Other measures included vocational training programs, temporary employment, wage actions, and Norway statutory wage freezes as a response to the economic recession of the seventies. Today, these are the key bodies in the Norwegian industrial-policy system[94]: The Norwegian Industrial and Regional Development Fund: is a source of financing for small and medium sized companies, and is mainly focused on competence increasing measures and female participation. The Research Council of Norway: administers NOK 3 billion for research purposes and provides advice on research-policy matters, thus to increase the level of knowledge and promote creativity. The Norwegian Trade Council: is the national center of expertise on exports, internationalization, and technological collaboration. The Norwegian Guarantee Institute for Export Credits: is the main governmental body meant for providing and insuring export credits. This is to promote export of Norwegian goods and services and Norwegian investments abroad. These are examples of Norwegian policies aimed at protecting the domestic economy from international pressures. Further, and at the heart of the Norwegian approach of domestic compensation, as described below, are the system of collective bargaining, which was centralized in 1963, and a union of wage solidarity (Katzenstein 1985: 51).

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[94] Government of Norway (22.08.12): http://www.regjeringen.no/nb/dep/nhd/dok/veiledninger_brosjyrer/2001/Business-and-industry-in-Norway---The-structure-of-the-Norwegian-economy.html?id=419326#Noen

Stephens (1979) notes that the small European states largely rely on their public sector as a critically important component in domestic compensation:

> Governments in nations with open economies have sought to counter the effects of external dependency by expanding their control over the domestic economy through the nationalization of a large portion of the national income (Stephens 1979: 20).

Proof of this, as noted above, is seen in large public ownership shares in major corporations, such as Telenor, Hydro and Statoil. Tax levels on oil and gas production are also high in Norway, especially when compared to Alberta. The comparatively high tax levels and state ownership in major corporations provide a possibility for Norwegian politicians to carry out economic policies aimed at domestic protection against international pressures. Accordingly, the high levels of oil and gas rents provide a powerful means for domestic compensation.

9.2.2 Democratic Corporatism

An ideology of social partnership, which is a shared understanding by business and unions, is descriptive of the small states. Katzenstein (1985) calls this ideology *democratic corporatism*, and further claims that this is a distinctive feature of all the small European states. According to Rommetvedt (2002: 58), an important feature of corporatism is that decisions are made by equal partners. In Norway, the wage negotiations held bi-annually between the Norwegian Confederation of Trade Unions (LO)[95] and the Confederation of Norwegian Enterprise (NHO)[96] serves as an example of this (Røed Larsen 2004: 22). Yet, if the system is to be described as corporatist, it is necessary that the state has a role in the negotiations. The state can function as a mediator, or as a third party, in the negotiations (Rommetvedt 2002: 59), which is in accordance with the neo-corporatism described by Berger (1981) and Goldthorpe (ed. 1984).

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[95] The Norwegian Confederation of Trade Unions (Norwegian: Landsorganisasjonen, LO) is a national trade union center, decidedly the largest and probably the most influential umbrella organization of labor unions in Norway.

[96] The Confederation of Norwegian Enterprise (Norwegian: Næringslivets Hovedorganisasjon, NHO) is an employers' organization in Norway with more than 20,000 members.

9.2.3 Values and Norms

Rommetvedt (2002: 63) contends that the corporatist system of negotiations only can deal with issues relating to the distribution of economic goods etc. i.e. if the negotiating parts have different views concerning values and norms, the platforms are too different to lead to a compromise. In other words, the parties need similar preferences when it comes to values and norms, to lay the foundation for meaningful negotiations where a compromise can be reached. As mentioned above, Norwegian political culture is described by egalitarian individualism. The idea of equality, shared by multiple actors in the economy is imperative for the functioning of Norwegian corporatism, following Rommetvedt (2002). A common goal of securing relative equality within society is served by securing national workplaces and at the same time managing Norwegian businesses prospects of competing internationally, in a sound fashion. Eichengreen (1996: 46) points to a notion of a social contract when explaining Norwegian corporatism. The social contract involves labor unions agreeing to restrain wage demands in return for a pledge that profits will be invested back into capital formation. This bargain, between labor and capital instigated by the state, is embraced by labor unions because it promises higher future incomes and high employment. Industry consents because it is promised cheap credit and wage restraints (Esping-Andersen 1985: 216-219). The state's part in the negotiations, seen in corporatism with its centralized structure, assists its functioning by reminding the parts, laborers and employers, about how their preferences affect the aggregate economy and by promising favorable returns for both parts. Seen this way, the democratic corporatism experienced in Norway is intertwined with the cultural context of the country because functional corporatism necessitates common values and norms. The positive effects of the arrangement are visible on macroeconomic indicators, and in turn this legitimizes the system and the state's role as a mediator. According to Hveem (1994: 33), the Norwegian corporatist system is characterized by a high ability to reach compromises and to divide economic costs and benefits. Arguably this is due to the common values and norms of equality and unity that allows the state an active part in the economy.

There exists empirical numbers to back the notion of the acclaimed social contract. In the period between 1992 and 2011 Norway experienced 243 strikes, which is an average of 12 per year. The average rises to 18 per year when only measuring the years of the main wage negotiations, but shows only 6 per year when measuring the year's in-between[97]. According to Røed Larsen (2004: 21) laborers appear satisfied with the visible economic growth, because they know that eventual profits will be plowed back into growth, and this has led to relatively few work stoppages in Norway.

Table 10

In all countries, there are differences or even conflicts between social groups. In your opinion, in Norway how much conflict is there between management and workers?	"very strong" and "strong" conflicts	"not very strong" and "no" conflicts	"Neither"
	19.5%	**74.9%**	**3.4%**

The numbers presented in table 10 are found in Lund, Frisvold, and Kalgraff Skjåk's (1999)[98] national survey about social inequality. The survey provides a picture of low levels of conflicts between management and laborers in Norwegian workplaces, and underlines Røed Larsen's (2004) observation of satisfied laborers.

9.2.4 Centralization of Interest Groups and the Labor Party

There are strong and persistent connections between interest groups and political parties in the small European states (Katzenstein 1985: 89). In Norway this is exemplified by the strong connections between the Labor Party and LO. LO represents a large base of Labor Party voters and thus their views are listened to. Further, LO contributes with NOK 5 million (approximately C$1 million) to the Labor party each year[99], and this helps cement the connection between the two parts. As mentioned previously, the Labor Party has been in governing position for 28 years since 1971, and Labor Party policies are typically geared toward a close relationship between the state and the economy (Nordby 1993: 7).

Esping-Andersen (1985: 216) notes that the Labor Party was in great shape for the promotion of their industrial policies including the state as an active agent in the process, due to the national solidarity stemming from World War II and their subsequent majorities in parliament. Postwar reconstruction in Norway involved extensive state regulation and controls, and the combination of detailed microeconomic and general macroeconomic planning were prevailing and persistent. The Labor Party was partly able to promote state-

[97] Statistisk Sentralbyrå (03.05.12): http://statbank.ssb.no/statistikkbanken/Default_FR.asp?PXSid=0&nvl=true&Plangua ge=0&tilside=selecttable/hovedtabellHjem.asp&KortnavnWeb=arbkonfl

[98]Norwegian Social Science Data Services (22.08.12): http://www.nsd.uib.no/rapport/nsd_rapport119.pdf

[99] Aftenposten: http://www.aftenposten.no/nyheter/iriks/politikk/article4205596.ece

controlled industrial accumulation because the political resistance was nullified (Esping-Andersen 1985: 217) but also, as mentioned above, because the policies were accepted by labor unions, even though it called for wage and consumption restraints. Capitalists similarly welcomed the program because it offered wage restraints and access to cheap credit. The primary sector embraced the program due to considerable income compensation and price subsidies. Finally, the package of controls and planning relies on the willingness of LO and NHO to abide by the Public Wage Board's guidelines, i.e. when negotiations between capital and labor fail to result in a settlement a forced wage council is set in motion (Esping-Andersen 1985: 218).

Following this, the Labor Party had a central role in the establishment of Norwegian corporatism. Further, the Labor Party argues that redistribution of wealth is about equality and fairness, and that the Norwegian economy is hallmarked by high economic growth combined with equal distribution of earnings[100]. It seems like their close affiliation with the political culture of egalitarian individualism combined with the national solidarity coming from World War II made it possible for the Labor Party to gain a majority in parliament and thereafter carry out their economic policies through the implementation of corporatist institutions.

9.2.5 Why Democratic Corporatism Leads to Fund Saving

In the above sections it has been argued that small European states take measures to ensure domestic compensation against international pressures, and that Norway, as a small state, is dependent on world and regional markets for economic growth. Norway is therefore proponents of international free trade, as noted by the Norwegian government[101]. Larger, and economically less vulnerable states may not be as dependent on world markets as the smaller states. To counter this, the smaller states have developed a system of corporatism for domestic protection. At the heart of Norwegian corporatism are the major wage negotiations facilitated and overlooked by the state, and the possibility for the state to engage in forced wages council.

[100] Norwegian Social Democratic Party (27.05.12): http://arbeiderpartiet.no/Politikken/Hovedsakene/Trygg-oekonomisk-styring/Spoersmaal-og-svar
[101] Government of Norway (27.05.12): http://www.regjeringen.no/en/dep/nhd/documents/Handbooks-and-brochures/2001/Business-and-industry-in-Norway---Industrial-policy-challenges.html?id=419334

In order for the Norwegian authorities to be able to maintain this system the establishment of a government owned savings fund for natural resource revenues is important. If the capital coming from oil and gas production were to be handled to a larger extent by the market, like in Alberta, the state would lose control over where the revenue is located. A consequence of this would be less revenue available for government administered bodies and schemes meant for the promotion of economic diversification and the promotion of international trade of Norwegian products. Due to the Norwegian economy's reliance on foreign markets, combined with Norway's relatively small size, these government programs are important for domestic protection against exogenous pressures. Obviously the large government owned oil fund provides the Norwegian government with a powerful means to counter the possible negative economic effects, as described. Thus the institutions found in Norwegian corporatism provide an incentive for government-facilitated fund saving, because the savings are important for the protection of Norwegian businesses competing abroad in foreign markets.

Another important institution in the corporatism seen in Norway is the government facilitated main wage negotiations. This system necessitates common values and norms, as argued above, but clear ownership to oil and gas revenue is also important because it helps evading large scale conflict between laborers and employers (Tsui 2005). Without control over the vast resource revenues the possibility to encourage and instigate sobriety for both parts in wage negotiations will be thwarted, and hence an important fundament of the corporatism seen in Norway would be weakened. To illustrate this, resource curse theory will be applied.

Rent seeking and purchase of political power are examples of negative effects viable in resource-endowed societies. Karl (1997) mentions overly centralized political power; strong networks of complicity between public and private sector actors; the replacement of domestic tax revenues and other sources of earned income by petrodollars, as typical features of rent seeking. According to Smith (2004) oil wealth creates weak state-society linkages, because the state does not need to represent social groups for the purpose of taxation or to develop public policies to justify the level of taxation. Accordingly, with ownership of a large oil and gas fund the Norwegian government is in a position where it potentially is able to spend oil and gas revenue to maintain power. Røed Larsen (2004: 20) identifies two resource curse factors relevant to the question of government administered fund saving. They are *large-scale conflicts* that are typically prolonged work stoppages or lockouts; and the *purchase of political power* where incumbent politicians promise paybacks in return for votes often referred to as clientelism. Norway has largely been shielded from these effects and this thesis argues that the democratic corporatist institutions are important reasons for this.

To avoid large-scale conflicts over distribution, clear ownership of large resource revenue is imperative, according to Tsui (2005). Thus keeping the vast oil and gas revenues in an abroad government owned savings fund largely takes away possible conflicts over distribution of oil revenue, and hence makes for a stable economic environment. Following the notion that democratic corporatism is a response to the pressures of the liberal global market, the establishment of a petroleum fund helps strengthen government influence on the domestic economy because it forms clear ownership rights to the revenue, and this diminishes the risk of rent-seeking on behalf of the oil producing companies, and the risk of revenue flowing abroad. As noted previously, a budgetary rule that ideally allows a maximum of 4 percent of net revenue to be taken from the fund each year has been implemented, and in effect this restrains the day-to-day access of the revenue for policymakers. As a result, this removes the possibility for interest groups to bargain over larger rents, and additionally, it largely eliminates the possibilities for politicians to promise certain interest groups larger rents. Without the high rents on oil and gas production combined with the state owned oil and gas fund, a larger share of the revenue coming from oil and gas production would be left to the market. With higher returns for the oil companies, laborers would soon be expected to demand higher wages. Higher wages would instigate a transfer of labor to the resource industry, which in turn will have the likely effect of hurting other Norwegian industries. Dutch disease theory describes this chain of events[102]. Following this, the government owned oil and gas fund is a necessary component for the upholding of democratic corporatism, because the government owned oil and gas fund is a prerequisite for the state to be able to instigate sobriety in wage negotiations. In other words the government owned oil and gas fund diminishes the risk of labor conflicts, because the revenue is effectively taken away from wage negotiations. By referring to the

[102] Please see the chapter *10 Dutch Disease* for further explanation.

empirical numbers presented previously Norway has been shielded from larger work conflicts, which implies that the goal of wage moderation on both parts has been met.

The second factor mentioned by Røed Larsen (2004) points to the interplay between economics and how the election system works. With government control over massive resource wealth it is possible for politicians to promise rewards in return for re-election. This practice of clientelism erodes the fundaments of democracy as incumbent politicians are in a position to spend, or promise to spend, money on projects in an effort to gain an advantage over political opposition. Opposition politicians aiming for government control may also make promises. This can lead to a rush of promises eroding the resistance to overspending of resource revenues. In Norway Karl (1997) and Tsui (2005) mention the establishment of the government owned petroleum fund as an important feature that debilitates the possibilities for political clientelism, because the oil fund regulations take away excess oil revenues from the day-to-day control of policymakers. Further, the guiding principle of the budgetary rule of 4 percent largely removes the possibilities for politicians to promise larger spending of oil revenue than 4 percent, as mentioned above. It can thus be argued that the establishment of the Government Pension Fund Global combined with the 4 percent budgetary rule has mitigated the chances of a resource curse occurrence in Norway, and as we shall see, Alberta with its more fragmented pluralist structure, has not been shielded from the resource curse to the same degree as Norway. In short, the establishment of the oil fund and the application of the 4 percent rule form the fundament of democratic corporatism in Norway because these features help facilitate the centralized wage bargaining system in ways described above. These features are also pertinent means for domestic compensation and subsequently resource curse escape.

9.2.6 Market System

The chapters about market system for both Norway and Alberta have been added to show that it may be economically rational for the two to implement the economic policies that they do.

To reiterate the variables presented earlier, Alberta and Norway display similar numbers on a range of independent variables. The population is about the same, oil production is about the same, GDP/total and GDP/cap are about the same, unemployment rates are about the same, and inflation rates for the last twenty years are about the same. The two jurisdictions also have ownership to natural resources that are found on their territory. First and foremost these numbers show that both Norway and Alberta are economically successful. Where Sweden, Denmark and the rest of the EU struggle with an average unemployment rate of 11.2 percent[103], Norway displays a rate of 3.2 percent. Alberta's unemployment numbers currently show 5.5 percent, which is comparatively low to the Canadian average of 7.2 percent[104] and the US average of 8.2 percent[105]. When looking at the numbers of GDP growth Norway displays an average GDP growth between 1990 and 2010 of 2.6 percent, which is equal to the average growth seen in the EU[106]. Canada shows an average growth in the same period of 2.5 percent, which is equal to the numbers seen in the US[107]. Alberta however displays an average of 3.4 percent[108]. Apparently Norway, Canada, the US and the EU have experienced approximately the same growth rates over the last 20 years, but Alberta stands out with a 1 percent higher average growth during the same period. In combination the numbers of unemployment and GDP growth tell a positive story of Alberta and Norway compared to similar jurisdictions.

Hall and Soskice (2001) highlight the importance of firms and the role of business in political economy, however without neglecting the significance of trade unions, in their *varieties of capitalism* approach. The core distinction drawn by Hall and Soskice (2001) is between *liberal market economies* and *coordinated market economies*. The varieties of capitalism approach is particularly suited to compare different kinds of economies, such as the Norwegian economy which falls under the coordinated market economy, and the Albertan economy which is best described as a liberal market economy.

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[103] Eurostat (12.09.12): http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/
[104] Statistics Canada (12.09.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/lfss01a-eng.htm
[105] Eurostat(12.09.12): http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics
[106] World Bank (12.09.12): http://databank.worldbank.org/ddp/html-jsp/QuickViewReport.jsp?RowAxis=WDI_Ctry~&ColAxis=WDI_Time~&PageAxis=WDI_Series~&PageAxisCaption=Series~&RowAxisCaption=Country~&ColAxisCaption=Time~&NEW_REPORT_SCALE=1&NEW_REPORT_PRECISION=0.0&newReport=yes&IS_REPORT_IN_REFRESH_MODE=true&IS_CODE_REQUIRED=0&COMMA_SEP=true
[107] World Bank (12.09.12): http://databank.worldbank.org/ddp/html-jsp/QuickViewReport.jsp?RowAxis=WDI_Ctry~&ColAxis=WDI_Time~&PageAxis=WDI_Series~&PageAxisCaption=Series~&RowAxisCaption=Country~&ColAxisCaption=Time~&NEW_REPORT_SCALE=1&NEW_REPORT_PRECISION=0.0&newReport=yes&IS_REPORT_IN_REFRESH_MODE=true&IS_CODE_REQUIRED=0&COMMA_SEP=true
[108] Alberta Economic Quick Facts (12.09.12): http://www.albertacanada.com/documents/SP-EH_AlbertaEconomicQuickFacts.pdf

In coordinated market economies firms depend on non-market relationships to coordinate their activities with other actors in order to construct their core competencies. This entails a larger reliance on collaborative, rather than competitive relationships between firms (Hall and Soskice 2001: 8). Accordingly, policymakers who secure adequate forms of coordination among actors can improve national economic performance. In Norway this coordination is exemplified by the state's role in the main wage negotiations. Effective strategic cooperation habitually depends on the presence of appropriately organized social organizations, e.g. LO and NHO, that states can encourage but not create (ibid.).

Governments of coordinated market economies take advantage of strong business associations and trade unions to deal with problems of information asymmetries and high transaction costs. Because the associations and unions are independent of the government, economic actors are more inclined to trust them with private information to effectively administer coordination-oriented policies. Given this, Hall and Soskice (2001: 48) argue that coordinated policies are more likely to succeed in states with both a coordinated market economy and a political system where producer groups enjoy substantial structural influence, as in Norwegian democratic corporatism. Egalitarian individualism and democratic corporatism, combined with the coordinated market policies of the Norwegian Labor Party, lay the foundation for a coordinated market system. In this market system interest groups are unionized in major centralized unions, unlike the fragmented environment seen in Alberta. Therefore, according to Hall and Soskice the Norwegian authorities should focus on policies aimed at inducing non-market coordination between economic actors rather than attempting to sharpen market competition through tax rebates, as seen in Alberta. If the goal is to maximize economic growth, then the rational policy option within the jurisdiction is to extract high levels of rent for fund saving, in combination with a coordinated effort by the state to induce union collaboration. It is not a practical choice for the Norwegian authorities to lower taxes and reduce fund saving as seen in Alberta, following Hall and Soskice. As mentioned above, Katzenstein (1985) and Keohane (1984) contend that the authorities of small states coordinate action between market actors as protection against international pressures. The rational choice to obtain this protection is establishing clear ownership rights of resource revenue to avoid conflicts over distribution and to induce trade union cooperation in coherence with democratic corporatism. Hence the rational economic choice, which has proven effective for Norway on indicators such as employment, inflation (CPI), and GDP/cap/total, is the establishment of a state owned petroleum fund because it helps facilitate the corporatist institutions, as described above.

9.3 Albertan Neo-Pluralism

Norwegian politics can be understood by the concept of democratic corporatism, as described previously. Canadian politics are less centralized and hence the notion of democratic corporatism does not apply. Pluralism is the idea that individual interest groups exert pressure on the government and parliament through lobbying to have their wants realized. It is characterized by a low degree of unions in policymaking, and the pressure groups are often fragmented competing for different interests (Smith 1990). According to Lehmbruch (1984:66) Canadian politics can be classified as pluralist, thus displaying a low degree of corporatism. Following the notion of pluralism interest groups wield significant amounts of power and are therefore important in determining policy outcomes. However importantly, a free flow of ideas and groups cannot be expected to have influence on the policymakers, hence all groups do not have equal access to power (Smith 1990), i.e. business and economic interests hold a favored position in exercising pressure on policymakers. Neo-pluralism was developed with the recognition that business holds a superior position to other groups (Dunleavy and O'Leary 1987: 275). Following the neo-pluralist position it can be acknowledged that corporate units of businesses exercise great power, and consequently, business interests control significant parts of government.

Lindblom (1977) argues that business holds an advantage by two factors: the government needs to give business inducements in order to make sure the economy is successful. In turn this puts business in a favorable position. Secondly, important decisions are taken by businesses in a market system and are thus taken away from the government agenda. Consequently, decisions that affect many people's lives are removed from democratic control. The government adopts measures that are in the interest of business because the government needs a healthy economy (Smith 1990). Corporations, in their relations with governments, unsurprisingly fully exploit their discretionary power, described by Lindblom, to commit or hold back resources, to make investments, and to hire or lay off workers, etc. Because industry resources hold such significance in liberal democracies, and because employment and output decisions render very directly into electoral popularity, governments always act with special regard to business interests (Dunleavy and O'Leary 1987: 294).

There are however some uncertainties with the neo-pluralist stance as presented by Lindblom. First, it is unclear how business exercises its influence on policymaking it disapproves of. Second, there will presumably always be examples of groups, other than business, receiving benefits. Despite these problems, Smith (1990) argues that Lindblom's position is useful in many respects because it recognizes that there are differences between interest groups, and that it allows for a role of ideology in policy-making. Following this, Lindblom acknowledges that consensus is not necessarily the result of agreement but of manipulation of preferences (Smith 1990).

9.3.1 Neo-Pluralism and the Alberta Progressive Conservatives

As mentioned previously the typical conservative party is concerned with personal liberty and free enterprise, and the Alberta PC government is no exception. In their statement of principles they declare that the creation of wealth and jobs can be best achieved by a free enterprise economy, and that their fiscal priorities include the minimizing of taxes[109]. These principles are coherent with the notions inherent in the political culture of Alberta, presented in chapter *8.3 Alberta: Political Culture*, but they also sustain the features of neo-pluralism:

In addition to the low tax and royalty policies subsequent Conservative governments have been hostile to labor union organization. In the eighties a Labor Relations Code (Bill 22) was introduced in Alberta. Bill 22 requires unions to have signed up at least 40 percent of a bargaining unit's members, and unions have to win a representation vote by 50 percent plus another vote to obtain certification (Reshef 1990). According to Reshef (1990) Bill 22 improves employers' ability to obstruct union organizing. In Gibbins' 1979 study, 83.3 percent of the asked Albertans answered that trade unions had become too powerful in Canada. Apparently the union hostile policies of the Alberta PC government have public backing. Additionally, Statistics Canada reports that Alberta has the lowest number of

[109] Alberta Conservatives (23.06.12): http://www.albertapc.ab.ca/admin/contentx/default.cfm?h=10378&PageId=10382

unionized laborers of all the provinces in Canada[110], and that union membership is on the decline in the province[111]. These facts resonate well with the notion of neo-pluralism where business is expected to hold an advantageous position over other interest groups.

9.3.2 Economic Diversification

Even though the general government interference in the economy is low in Alberta, there exist some programs for economic diversification. The most important initiatives highlighted by the government of Alberta are[112]: *Regional Economic Development Alliances* (REDA), which is a non-profit organization working toward business development and prosperity in a defined geographic area. REDA is supported by the Alberta government to help people undertake business projects. *Community Economic Development* is a program that supports people in developing and implementing economic development plans. *Rural Alberta Business Centers* (RABC), is a partnership program between the Alberta Government and local organizations. It provides advice and information to entrepreneurs and small businesses to assist them in making informed business decisions.

These programs show that the Alberta government is concerned with economic diversification and promotes initiatives to make this happen. Here Alberta correlates with Norway that also has economic diversification as one of its priorities. It seems, though, that the Alberta programs mainly are civil initiatives that receive government support after establishment. In Norway the diversification programs are in a larger degree government initiatives from the beginning of the process[113].

An important point in this regard is the availability of government funds to support such diversification programs. Despite Alberta's vast natural resource reserves the province has over the last three years been running deficits[114]. Obviously, with higher rents for the

[110] Statistics Canada (05.09.12): http://prod.library.utoronto.ca/datalib/codebooks/cstdsp/71f0004xcb/2002/pe_archive_sa/english/1997/pear1997009004s4a05.pdf
[111] Statistics Canada (05.09.12): http://www.statcan.gc.ca/daily-quotidien/101029/dq101029c-eng.htm
[112] Government of Alberta (05.09.12): http://eae.alberta.ca/economic-development/regional-development.aspx
[113] See chapter *9.2.1 Global Economy.*
[114] Government of Alberta (12.09.12): http://www.finance.alberta.ca/publications/annual_repts/govt/index.html

operating oil and gas companies more revenue would be available for the government. This revenue could, amongst other things, have been spent on diversification programs[115].

9.3.3 The Applicability of Lindblom's Thesis

The oil and gas producing industry meets a business friendly environment in Alberta due to the comparatively low levels of taxes and royalties, as presented previously. It thus seems like the Alberta government is concentrated on incentivizing business to produce maximum output by liberal economic means rather than focusing on high rents and fund saving, as stated by the PC political platform mentioned in chapter *8.3.3 Political Rule/Government*. This has helped Alberta grow to become the largest economy in Canada referring to the numbers presented above, but it has also hampered government-facilitated accumulation of funds. In other words, if the Alberta government were to extract larger amounts of revenue from the market through taxes and royalties corporations would be left in a weaker position vis-à-vis exogenous competition. According to the neo-pluralist position, this is exactly why governments in capitalist societies keep business happy with low tax rates, because it is perceived as the only option to instigate economic growth and create work places.

Following the views held by Lindblom (1982) the structure may be difficult to break. In his article "The Market as Prison" he argues that the fundamental structures of capitalism are challenging to alter because they have been institutionalized as laws of nature. Accordingly, to change the way Alberta handles it natural resource wealth necessitates thinking outside the box. Keeping the features of western alienation fresh in mind, the liberal policies in Alberta can be expected to die-hard. With so many fundamental factors pointing in the direction seen today, e.g. public support of the arrangements through surveys and liberal PC government policies, it seems unlikely that low royalty rates will yield increased savings anytime soon. As mentioned above, Lindblom (1977) contends that policymakers are forced to go with the market forces because not doing so could lead to downsizing of production and thus workplaces will be lost in the process. This, however, is due to the institutional structure of neo-pluralism. Norway, in comparison, extracts six times the rent from the oil and gas industry than Alberta does. Referring to the variables presented in the introductory chapter, Norway and Alberta display similar numbers on

[115] See chapter on the *10 Dutch Disease* for more.

important economic variables. Hence low royalty and tax rates are not necessarily a prerequisite for a prosperous economy. Accordingly, a break out of the market as prison is viable under certain circumstances. In Alberta, however, with its current PC government backed by the notions of western alienation, going from low levels of fund savings to more extensive levels seems far-fetched.

As shown earlier, the democratic corporatism seen in Norway necessitates common values and norms, for example about how revenue is to be shared between corporate owners and labor. Common values and norms can also be found in the case of Alberta where multiple societal actors share in the general views of free enterprise and low tax levels. By referring to the public surveys and PC policies Alberta is as homogenous in their wish for low taxes and free enterprise, as Norway arguably is for equality and unity. Following this, it is possible to imagine that trade unions in Alberta would come together in major wage negotiations on these terms. Yet government distrust is a central feature of western alienation, and this hampers the prospects of implementation of a corporatist system. The state needs to have a central role in the negotiations if the arrangement is to be defined as corporatist, as described in chapter *9.2.2 Democratic Corporatism*. It seems unlikely that Alberta business and labor would allow for the arbiter role of the state seen in Norway, including the right of the state to engage in forced wage councils. Obviously the features of democratic corporatism contradict the “Alberta right to free enterprise” at a fundamental level. As a result, a denser Alberta government involvement in the economy is unwanted. Consequently the Alberta government is forced, and presumably also wishes to leave the economy rolling by itself with low levels of interference. Understandably, the low levels of rent, related to the wish for free enterprise combined with government distrust, create a structure that leads to diminishing incentives for fund saving.

9.3.4 Resource Curse Experience in Alberta

When the experiences in Alberta are assessed in relation to the resource curse hypothesis, the picture changes from what is seen in Norway. Previously it was argued that a corporatist system could be viable in Alberta due to the close connections between government policies and political culture. For that reason it may be hypothesized that the close connection between political culture and political structure mitigates the incidence of large-scale conflicts over resources and revenue in Alberta because the public is satisfied with the way the economy is organized.

The average number of work stoppages in Alberta in the period between 1990 and 2011 is 7 per year[116]. The average number (number of work stoppages divided by number of provinces and territories) in Canada during the same time period is 23[117]. The numbers show that Alberta comparatively to the rest of Canada has been shielded from high numbers of work stoppages. The relative hostility of Alberta's government toward labor unionizing must be expected to have an effect on the number of strikes. Nonetheless, working Albertans have the possibility to engage in strikes, thus arguably one of the reasons why Alberta has escaped the resource curse of large-scale conflicts, is by sporting close connections between political culture and political institutional structure in coherence with Eichengreen's (1996) theory of social contract. Evidently, referring to the numbers above, both Norway and Alberta have avoided the resource curse effects of large-scale conflicts even though the economies are organized differently with regard to state interference.

However, some evidence is seen of purchase of political power in Alberta. In 2004, Alberta Premier Ralph Klein handed out C$400 oil and gas revenue prosperity cheques to the electorate (Nikiforuk 2008: 158), and obviously this is a popular way of redistributing oil and gas revenue (Shaxson 2007). The total cost for the government accumulated to C$1.4 billion. This stunt by Premier Klein resembles the features of clientelism, and received strong criticism from the opposition[118]. According to the Alberta Liberals the prosperity cheques impeded the democratic process in the province. It can be argued that the cheques were merely liberal economic policy by leaving the revenue to be handled by individuals rather than by the government. This can be rationalized by arguing that the market knows best how to invest the C$1.4 billion. The opposition, however, saw this as an attempt of political purchase of power. Supporting the clientelistic view, Goldberg et al. (2008) find substantial evidence for the rentier-state hypothesis whereby mineral rents are used by incumbent politicians to purchase political support in their cross-national study of the US. These findings arguably fortify the Alberta opposition's fear that the prosperity cheques handed

[116] Statistics Canada (24.05.12): http://srv131.services.gc.ca/dimt-wid/pcat-cpws/tirir-sort.aspx?lang=eng
[117] Statistics Canada (24.05.12): http://srv131.services.gc.ca/dimt-wid/pcat-cpws/tirir-sort.aspx?lang=eng
[118] Taft, K. (2007) Democracy Derailed: A Breakdown of Government Accountability in Alberta – And How to Get it Back on Track. Red Deer: Red Deer Press.

out by the ruling PC government were an attempt to buy votes. Further, Karl (1999: 37) notes that economic and political authority in rentier-states rest on the dual capacity to extract rents, and then to distribute the revenue using political criteria as the central mechanism of allocation. This creates close linkages between economic and political power that arguably are fortified by arrangements like the "Ralph bucks"[119]. Nevertheless, the notion of western alienation seen in Alberta inherits resentment to government and this resentment is found in the PC small government free enterprise policies. Consequently, the option of sharing the excess oil revenue with the public via cheques corresponds well with the view of western alienation. In short, the lack of provincial savings seen in Alberta, as a consequence of the PC's economic liberal policies, forms the foundation for possible purchase of political power and thus makes the province disposed to the resource curse, because the lack of a functional provincial savings fund and budgetary rule provide politicians with extensive autonomy with regard to how the revenue may be handled cf. "Ralph bucks".

9.3.5 Connections between Business and Politics in Alberta

There are close connections between public officials and private economic actors in Alberta, according to Nikiforuk (2008: 158). He argues that the distinctions between the business of oil and public affairs have diminished in the province, by pointing to the fact that former Premier Klein took a paid senior adviser job in the oil industry for Borden Ladner Gervais LLP[120] after retiring from politics. In addition to this, Klein's former chief of staff, Peter Elzinga, went from Klein's office to work for the tar sands giant Suncor as a lobbyist, only to get back into politics as the executive director of Alberta's PC nine months later. Former Alberta Energy Minister Greg Melchin joined the board of an oil company only three months after quitting politics; while the former minister of economic development, Mark Norris, was appointed chairman of Wescorp Energy Inc. These are only a few examples of connections between business and politics in Alberta, thus to strengthen the argument about the alleged networks, more elaborate numbers on the matter are required. It is nevertheless possible to assume that the connections, as presented, are helpful for the oil businesses when

[119] The C$400 prosperity cheques handed out by Premier Klein were nick named "Ralph bucks".
[120] Borden Ladner Gervais LLP is a Canadian Law firm.

bargaining with the Alberta government. The connections may not be illegal, but they nevertheless create close linkages between government and the oil business that may be beneficial to the oil industry when negotiating rents, and the other way around, they may be beneficial for politicians aiming for re-election. As mentioned above, Karl (1997: 193) contends that strong networks of complicity between public and private sector actors may lead to unfavorable rent seeking. Accordingly, the connection between business and politicians seen in Alberta could lead to a type of rent seeking perceived as a feature of the resource curse. Arguably, the features seen in Norway presented above are lacking in Alberta due to the institutional structure of neo-pluralism, where business is situated in a favorable position. A plausible consequence of the close connections between the oil companies and the provincial authorities, where actors rapidly change between positions in the oil business and the government, is that they debilitate the prospects of larger rent extraction on behalf of the government. Additionally, it makes Alberta liable to the resource curse effect of rent seeking, because oil and gas rents are low and renewed savings schemes to AHSF are absent.

Further, Røed Larsen (2004) contends that transparency and media attention are of vital importance for avoidance of rent seeking. In Alberta the PC government made it legal for petro-politicians to lock away internal audits for fifteen years and for government ministers to keep their briefing binders out of public view for five years (Nikiforuk 2008: 159). Tsalik (2003: 27) notes that the operations of the AHSF are subordinated to the governor's cabinet and hence is part of the political process. The administrators of AHSF have an interest in shielding themselves from criticism from the legislature, and as a consequence of this the information to the public is limited. Audits are conducted by a provincial auditor, and not by an outside independent agency, as is the case in Norway. This contradicts the virtues of transparency and monitoring of public agencies as a means to help prevent occurrence of the curse. Subsequently and following Karl (1999: 45), the low degree of transparency of internal government audits in Alberta is a sign of a looming resource curse. It can be questioned whether the connections between politicians and the oil business explain the necessity of hiding internal government audits for fifteen years? These facts nonetheless strengthen the notion of neo-pluralism where business holds a favored position over other groups and that Alberta may be described by the concept. The close connections between government and oil business arguably help explain why oil rents are low in Alberta and why subsequent government fund savings are lacking, as potential royalty revenue is left in the market at the hands of business.

9.3.6 Market System

In liberal market economies the equilibrium outcomes are usually given by supply and demand, whereas in coordinated market economies it rests more often on the strategic interaction between firms (Hall and Soskice 2001: 8). The principal problem facing policymakers is how to induce economic actors to better cooperate, following the view that the economy is an arena consisting of multiple actors. When actors coordinate better, e.g. trade unions and employers, their performance will be equally better. Accordingly, policymakers who secure adequate forms of coordination among actors can improve national economic performance. Also markets can secure this coordination, thus the task for the policymakers is to enhance the functions of the market (Hall and Soskice 2001: 45). A pertinent example in Alberta is the low-tax policy intended for long-term economic benefits, and the 1997 Generic Royalty Regime as previously presented. In 2012 the combined federal/provincial corporate income tax rate is set to 25 percent, which is a 1.5 percent reduction from 2011. Further, Alberta has no provincial capital tax, no payroll taxes, and no sales taxes[121], which exemplifies the Alberta government's liberal polices intended to enhance the position of the corporations within its jurisdiction.

Culpepper (2001) describes the task facing policymakers as securing 'decentralized cooperation', which involves encouraging private-sector actors to share information, improving their ability to make credible commitments, and altering their expectations about what others will do. According to Hall and Soskice (2001: 46) states cannot tell economic actors what to do because the outcomes are too complex to be dictated by regulation and because states often lack the needed information to specify appropriate strategies. Following this, in liberal market economies, such as Alberta, better economic performance may demand policies that sharpen market competition, while in coordinated market economies, as in Norway, policies that reinforce the capacities of actors for non-market

[121] Alberta Economic Spotlight (04.06.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf

coordination may be beneficial (Hall and Soskice 2001: 46). Accordingly, in Alberta the government is more likely to enhance economic activity by lowering taxes and by expanding formal education and research and development, rather than by trying to foster a Norwegian corporatist model.

The Varieties of capitalism approach has been applied to show that the policy option of low rents and little fund saving chosen by Alberta have an economic rationale to it. Alberta is best defined as a liberal market system with its low taxes and low degree of labor unionizing. Market sharpening policies, like low taxes and royalty rates, are therefore better economic polices than attempting to foster a corporatist model. From this it may be argued that the rational economic choice, which has proven effective for Alberta on indicators such as employment, inflation (CPI), and GDP/cap/total, debilitates the prospects of significant fund saving due to the low tax and low royalty environment seen in the province.

9.4 Structure as an Explanatory Variable

Political systems are composed of a variety of structures, and these structures are formed by such elements as interest groups, formal government arrangements, etc. It is a common assumption that these structures determine the way a political system works, thus structure provides a frame and a degree of durability to the way social units work (Easton 1990: 30-39). In Alberta interest groups are fragmented when working with policymakers. This has led to low royalty rates, as the government needs businesses to be successful in order to secure jobs and economic growth. In Norway interest groups show a higher degree of collaboration when bargaining with each other and the state. This system is a result of international economic pressures and the need for domestic compensation.

> Independently of our wishes we are born into a political system in which our relationships with others are regulated by certain rules. These relationships define part of the constraints under which we may act. They may also give us the opportunity to modify or change the rules substantially or even completely and, thereby, the nature of the pattern of relationships to others in which we may engage (Easton 1990: 53).

Following Easton, political structures function as constraints on what we can and cannot do. Accordingly, the institutional structural environment of Alberta and Norway provide constraints on viable actions for economic actors in the two jurisdictions. Previously it was noted that critical realists see agents as the only efficient causes in society, yet that structures influence the actions individuals choose to carry out. In other words, agents make their own decisions but not under the conditions of their own choosing. Sibeon (1999) claims that structures are material causes and that it is possible to ascribe causal efficacy to structures and still avoid the danger of 'reification'. By 'reification' Sibeon (1999) means ascribing decision-making capacity to objects that are not actors. According to Lewis (2002) the contention that structures are material causes does not suggest reification, because material causality operates only through the decisions of actors. This way, the ontological distinction between actors and structure, as defined by critical realists (see chapter *9.1 Operationalization*), makes it possible to argue that the two possesses very different properties (Bhaskar 1989: 35 in Lewis 2002). Accordingly, structures have, as do actors, their own distinctive property of material causality (Lewis 2002), and this material causality is related to how structures influence the actions actors choose to undertake.

9.5 Summary, Comparison and Findings

Political institutional structure is an important explanatory variable because it provides possibilities and constraints to the choices actors may carry through. This way political institutional structure makes certain policy options more available than others. The Albertan political institutional structure, as described above, is characterized by low government interference in the economy that in turn leaves great decision autonomy to the market. The Norwegian political institutional structure is to a greater extent characterized by government intervention. For example does the state facilitate major wage negotiations and has the possibility to engage in forced wages council, if the negotiating parts are unable to reach an agreement. It is also noteworthy that the Norwegian government keeps large ownership shares in major corporations such as Statoil and Telenor.

This thesis argues that the perceived differences have actual political implications which can be seen on the dissimilarities in policy outcomes in Alberta and Norway, and when viewed in light of critical realism, that it is possible to ascribe the two different structures of neo-pluralism and democratic corporatism material causality. The Albertan political institutional structure makes for low rents and little fund saving because government interference is low. Additionally the institutional structure seems to lead to a higher degree of rent seeking on behalf of the oil producing companies, than what is experienced in Norway. Naturally, when the rents primarily end up in private businesses, less revenue is available for government fund saving. Norway sees a lower degree of rent seeking by the oil producing companies, because government taxes on production are comparatively high and the subsequent revenue is stored in a government owned savings fund. This thesis argues that a government owned oil fund is a prerequisite for the corporatism in Norway, because the centralized structure and need for domestic compensation makes government control of funds imperative for the upholding of the corporatist institutions, as described above.

Both cases maintain programs for the promotion of economic diversification. Norway, with its comparatively high rents on production and large government savings fund, is however situated in a better position than Alberta when it comes to the prospects of offering funding for such schemes. Alberta has in later years run deficits, despite the large natural resource reserves, and this obviously debilitates the government's possibility to have an economic impact on the economy by spending on programs.

The chapters about market systems were added to provide an economic rationale to the different choices in Alberta and Norway. The numbers provided show that both jurisdictions have fared well economically, yet with essentially different policy outcomes on the dependent variable. Following Hall and Soskice (2001), the fragmented structure of Alberta and the centralized structure of Norway requires different policies if the aim is to maximize economic growth. Accordingly, low taxes and royalty rates is the superior policy option in Alberta, and opposite, a government facilitated system reliant on the economic actors willingness to abide by government regulations, is preferable in Norway.

The differences presented above apparently produce prosperous economies, yet the institutions inherent in democratic corporatism produce a greater incentive for government fund saving than the neo-pluralism seen in Alberta.

10 Dutch Disease

So far it has been argued that Alberta and Norway differ in their choices concerning resource revenue allocation due to differences in political culture and political system. Both models have produced prosperous economies, yet Alberta has not been as successful as Norway in terms of resource curse avoidance. As argued above, this is also closely connected to differences seen in political culture and structure. Another feature that will be added to the analysis is Dutch disease theory to investigate in what degree Alberta and Norway are susceptible to its features. Corden and Neary (1982) point to the *factor movement effect* and the *spending effect*, when explaining the Dutch disease.

The *factor movement effect* is caused by attractive favorable returns in resource extraction and this leads to a transfer of capital and labor to resource extraction industries from other sectors. In the process, factor prices, e.g. wages increase. With increasing factor prices other sectors lose competitiveness, and hence diminish. The fiscal advantage that resource revenues provide, foster consumption linkages and at the same time overwhelms the productive linkages necessary for generating sustainable economies, Karl (1999: 35) notes. When the non-natural resource sectors shrink, several disadvantageous effects may set in (Røed Larsen 2004: 14): first, know-how, physical plants, and technology may be lost irreversibly; second, positive externalities – learning by doing, technological progress, and innovative practices – from manufacturing may be lost, and not be replaced by positive externalities from resource extraction. Karl (1997) notes that easy access to money definitely can weaken traditional work ethics and reduce incentives for entrepreneurship, as well as lowering financial discipline within bureaucracies and leading to reckless budgetary practices.

The spending effect (Corden and Neary 1982) results from converting resource revenue into domestic currency, and using the currency domestically and thereby increasing aggregate demand. This method has two sub-effects. First, the conversion involves an increased demand for domestic currency, and second, the increased demand for domestic goods and services may lead to excess demand if the economy is at capacity. Both effects lead to real appreciation of the domestic currency, which again leads to loss of competitiveness and a reduction of the non-oil traded commodity sector (Røed Larsen 2004: 14).

10.1 Norway

A long-term effect of factor movement is the loss of know-how and entrepreneurship (Røed Larsen 2004; Baland and Francois 2000). This is a result of labor and expertise flowing to the lucrative resource industry from other types of manufacturing, which further leads to less investment in physical plants and research and development in non-resource manufacturing. In turn this hurts economic diversification and makes for great reliance on future economic output from the resource industry. Oil and gas are non-renewable resources hence one day the resource will be depleted. Therefore it is important to maintain a diverse export base during resource booms expecting the day the resource can no longer function as the driver of the economy. Norwegian policymakers foresaw these dangers in the seventies. Thus they provided a strategy of maintaining and accumulating industrial know-how with an emphasis on knowledge, technological progress, and human capital (Røed Larsen 2004: 13). Some of the policies are presented previously in chapter *9.2.1 global economy*, along with today's main government bodies meant to alleviate the dangers of the Dutch disease. The policies have in the present, and will presumably in the future, benefit the Norwegian economy by not making it overly reliant on one industry with the inherent dangers of volatile oil and gas prices and inevitable resource depletion.

10.1.1 Factor Movement Effect

In the period between 1960 and 1995 Norway spent all its oil and gas revenue, not unlike Alberta today. The earnings were canalized into the national budget, and were spent on running expenses, and a large share of the money was spent on expanding the public sector (Vale 2007: 457). During the Period between 1971 and 1995 the public sector in Norway grew from 17 percent to 30 percent of the total labor force. The industry and mining sector declined from 25 percent to 14 percent in the same period, and the primary sector declined from 12 percent to 4 percent. The same tendencies can be seen in other countries, however the tendencies seem to be stronger in Norway, according to Vale (2007: 457). Agriculture and fisheries endured as important elements of the Norwegian economy in the last quarter of the twentieth century. However its share of GDP declined from 5.6 to 2.4 percent (Heidar 2001). The agricultural sector was heavily subsidized by the government to provide equal payment for farmers as for industrial workers. This, however, helped only slow the declining number of farmers. In the fishing industry, fish farming supported the export of fish, one of the most important export articles of the mainland industries (Bailey 1997: 153).

Since the seventies the economic importance (contribution to GDP) of traditional industries has declined and the importance of the petroleum sector has been on the rise. For example during the period from 1975 to 1995, the mining and manufacturing contribution to GDP declined from 22 to 13 percent as a consequence of the decreasing number of laborers in these industries. This de-industrialization was partly due to technological enhancements making the need for labor less demanding, but it was also a side effect of the increased significance of petroleum products dealing with investment, exports, and GDP (Heidar 2001: 101).

However, less than 1 percent of the total Norwegian labor force is employed by the oil and gas industry today[122]. If services and manufacturing directly connected to the oil and gas industry is added to the number about 3 percent of the labor force has work associated with oil and gas[123]. Today the primary sector accounts for about 2.7 percent of the total labor force. Manufacturing accounts for 19 percent, health and social services account for 19 percent, and education for about 9 percent. Retail and services are by far the largest sector of the Norwegian economy employing 40 percent of laborers[124].

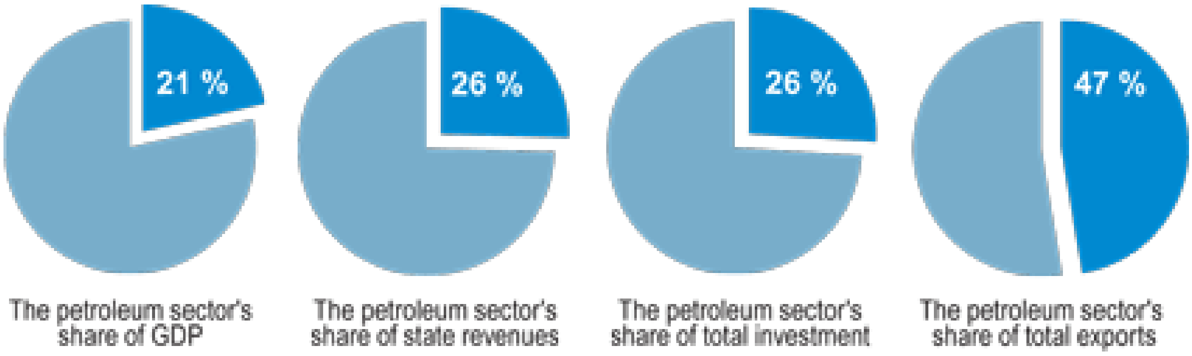
Table 11

sector	retail and services	manufacturing	health and social services	education	oil and gas	primary sector
	40 %	**19 %**	**19 %**	**9 %**	**3 %**	**2.7%**

These numbers show that even though Norway receives great revenues from oil and gas production, it has managed to maintain a diverse economic base and have thus avoided the Dutch disease effect of factor movement to the resource industry.

[122] Statistisk sentralbyrå (24.08.12): http://www.ssb.no/norge/sekundaer.pdf
[123] Statistisk sentralbyrå (24.08.12): http://www.ssb.no/norge/sekundaer.pdf
[124] Statistisk sentralbyrå (24.08.12): http://www.ssb.no/emner/06/01/regsys/tab-2012-06-08-09.html

Figure 2



Source: Norwegian Petroleum Directorate, found at: http://www.npd.no/en/Publications/Facts/Facts-2011/Chapter-3/

Figure 2, found in the Norwegian Petroleum Directorate's annual report: "Facts 2011"[125], show that even though the oil and gas industry is by far the largest source of income for the Norwegian government, other industries contribute substantially as well. This provides a picture of successful policies, as presented in the chapter *9.2.1 global economy*, aimed at reducing the importance of oil and gas on the total economy.

To limit the dangers of factor movement, in addition to the policies mentioned previously, the centralized wage formation system was applied to limit general wage increases at the magnitude of productivity increases in the manufacturing sector. By reminding the negotiating parts about the effects on the aggregate economy, the Norwegian government instigated temperance in wage negotiations. This way overly high wages in the economic lucrative oil and gas business was avoided, and in turn this diminished the risk of extensive factor movement of labor to the oil and gas industry at the mercy of other manufacturing and service sectors. Hence the corporatist institutions, as discussed above, arguably explains how Norway managed to avoid the damaging effects of factor movement due to large natural resources because it allows government interference in the economy, in the ways noted.

10.1.2 Spending Effect

According to Vale (2007: 457) economic theory tells us that extensive domestic use of natural resource revenue will lead to an appreciating currency, and that this will be damaging to national industry, as international competitors will gain an advantage when

[125] Norwegian Petroleum Directorate (15.08.12): http://www.npd.no/en/Publications/Facts/Facts-2011/Chapter-3/

products produced in Norway become more expensive vis-à-vis products produced elsewhere. As mentioned in chapter *5.3.2 Employment*, the Norwegian government has full employment as one of its stated objectives, and real appreciation would inevitably hurt the manufacturing industry as it makes for a tougher export environment and increasing interest rates. According to Røed Larsen (2004: 13) Norway avoided the most detrimental effects of the Dutch disease through the seventies and eighties. This could have been part luck, part policy, but reports from parliament document deliberations in the seventies by Norwegian policymakers contemplating the dangers of the Dutch disease, and consequently they made preemptive actions (ibid.).

The preemptive actions the Norwegian government applied to prevent the spending effect included fiscal discipline, down payment of debt, and the establishment of an abroad petroleum fund (Røed Larsen 2004: 1). If the oil and gas revenue to a larger extent were canalized into the Norwegian market it would likely "shock" the economy and overheating would be inevitable (Krugman and Wells 2009). The establishment of the government owned petroleum fund abroad is therefore of special importance. By severing the economy in two keeping the vast oil revenues apart from the general economy excess spending and real appreciation is less likely. As noted previously, Bank of Norway is instructed to aim for an inflation of 2.5 percent. Excess spending of oil revenue domestically would inevitably force Bank of Norway to increase the primary interest rate as a means to slow inflation. Therefore, according to Vale (2007) the rational choice is to keep oil revenue separated from the general economy. As a compromise, 4 percent of capital gains from the fund's investments are applied to the national budget every year.

When looking at the numbers, also presented above, Norway has been successful in keeping the inflation rate (CPI) low. During the last 20 years the average CPI number is 2.6 percent, which is close to the goal of 2.5 percent. Unemployment numbers are also comparatively low displaying an average of 2.55 percent between 2005 and 2010, with a high of 3.5 percent and a low of 1.7 percent[126]. These numbers show that Norway has been shielded from typical effects of the spending effect of real appreciation and its effects visible on inflation and employment indicators.

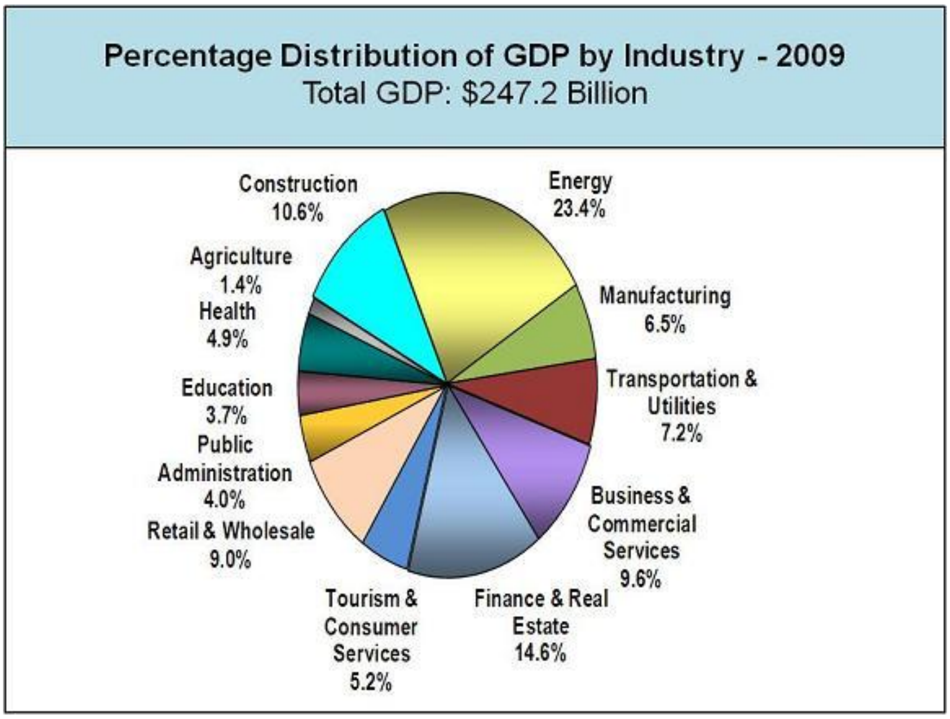
[126] Statistisk Sentralbyrå (15.08.12): http://statbank.ssb.no/statistikkbanken/Default_FR.asp?PXSid=0&nvl=true&PLanguage=0&tilside=selecttable/hovedtabellHjem.asp&KortnavnWeb=regledig

10.2 Alberta

10.2.1 Factor Movement Effect

Shiell and Busby (2008) argue that a diversified economy did not exist in Alberta prior to the discovery of oil and gas. It was the discovery of these natural resources that stimulated growth in manufacturing in downstream and upstream activities in the province. Macdonald (2007) notes that the wage increases in resource industries, have led to higher spending on goods and services. The result of this is an increase of income growth in sectors such as construction, real estate, and leasing. Corden (1984) points to the fact that migrating labor goes to both manufacturing and the service sector and this increases the output of the economy outside the resource sector. Following this, the activities instigated by the resource industry have proved beneficial to other economic sectors.

Figure 3



Source: Government of Alberta, found at: https://aeda.alberta.ca/albertaeconomy/Pages/default.aspx

Shiell and Busby's (2008), Macdonald's (2007), and Corden's (1984) findings contradict the idea that large resource revenues remove the economic fundament for a competitive diversified economy outside the resource industry. The numbers show that Alberta, after 20 years of little to no fund saving, sports a highly diversified economy. The non-renewable resource industry accounts for about 23.4 percent of provincial GDP. Other important sectors include; finance and real estate 14.6 percent; construction 10.6 percent; business and commercial services 9.6 percent; retail and wholesale 9 percent; and manufacturing 6.5 percent (see Figure 3)[127]. These numbers show that Alberta, unlike Holland in the sixties, have managed to avoid the detrimental economic effects of the Dutch disease without utilizing the Norwegian model of severing the economies in two, keeping oil revenues largely away from the domestic market.

However, Alberta sees some signs of an imminent Dutch disease. Wage pressures due to manpower shortages have started to resemble the symptoms of the Dutch disease (Shiell and Busby 2008: 15). This notion is also backed by Macdonald (2007) who notes that the resource boom in Alberta has led to rising resource industry employment while manufacturing employment has declined. The numbers show that most sectors have experiences an increase in employed laborers on average over last ten years from 2002 until 2012. Yet manufacturing displays decreasing tendencies[128]:

Table 12

	resource industry	manufacturing
2002	**5.8%**	**8.9%**
2012	**7.4%**	**6.7%**

The table above displays the percentage of total laborers in Alberta employed in resource industries and manufacturing. The empirical numbers support Shiell and Busby (2008) and Macdonald's (2007) claim that decreases in the manufacturing sector combined with increases in the resource industry, are resembling warning signs of the Dutch disease. It seems like Alberta so far has managed to escape the Dutch disease of factor movement by keeping a diverse manufacturing base, yet wage increases and labor movement are warning signs of an imminent curse.

10.2.2 Spending Effect

When explaining how Alberta so far has managed to avoid the Dutch disease effects of *real appreciation* it is again important to note that Alberta, unlike Norway, is part of a federation. As mentioned above, this puts Alberta in a different position concerning currency

[127] Government of Alberta (27.08.12): https://aeda.alberta.ca/albertaeconomy/Pages/default.aspx
[128] Statistics Canada (23.09.12): http://www5.statcan.gc.ca/cansim/a26

appreciation and primary interest rate, than what is the case for Norway. Ownership and the right to handle natural resources is a constitutionally protected right of the provinces, thus the decisions of where to allocate oil and gas revenue cannot be dictated from Ottawa. In turn this means that it is up to Alberta to decide whether or not to save oil and gas revenue in a fund. Addressing the impact of natural resource revenue spending on the Canadian currency is not a priority of Albertan provincial politicians today, according to Bimenyimana and Vallée (2011). Rather they are concerned with provincial economic growth. The manufacturing sector in Alberta is tied to the oil and gas business, cf. Corden (1984); Macdonald (2007), hence supporting the oil and gas industry is equal to supporting other manufacturing sectors in the province. The Alberta government instigates larger production in the oil and gas industry by applying low royalty and tax rates on resource extraction, thus the incentive for fund saving is weakened. Instead of fund saving, the province has increased spending on infrastructure and other programs to accommodate business, which periodically has put pressure on wages and housing prices (Bimenyimana and Vallée 2011).

During the latest boom years inflation (CPI) in Alberta reached 5 percent, compared to a Canadian average of 2.3 percent[129]. In 2009, however, during the economic downturn Alberta CPI was down to -0.1 percent while the Canadian average remained positive at 0.3 percent[130]. Yet all in all Alberta's CPI has averaged well inside Bank of Canada's inflation goal of 1-3 percent at 2.6 percent, between 1990 and 2010[131]. As it seems, the Alberta economy is a boom and bust economy where fluctuating oil and gas prices largely affect the province's economy output. The Alberta government admits the fact that the Alberta economy is volatile at the mercy of international market prices on oil and gas in their 2011 economic report[132]. It seems that the Albertans have made a choice of living with the economic uncertainty of volatile resource prices by not establishing a return to the fund savings seen in the seventies and eighties.

[129] Statistics Canada (23.09.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ09a-eng.htm
[130] Statistics Canada (23.09.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ09j-eng.htm
[131] Statistics Canada (23.09.12): http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ150a-eng.htm
[132] Alberta Economic Spotlight (23.09.12): http://www.finance.alberta.ca/aboutalberta/spotlights/2011-0708-importance-of-oil-and-gas-investment-in-Alberta.pdf

In 2003 the world experienced a rise in commodity prices, and this led to a resource boom in Canada. Important in this respect is the rise in the price of oil, which peaked in 2007 with over US$91 per barrel[133]. A combination of the price increase of oil, and the developments of new technologies made, amongst other things, the costly extraction of the Alberta oil sands achievable. The increase in oil prices has not come without cost for Canada and Alberta, however, and has inevitably led to an appreciation of the Canadian dollar toward the American dollar (Macdonald 2007). This corresponds well with the spending effect that results from converting resource revenue into domestic currency, and using the currency domestically and thereby increasing aggregate demand. Others, Shiell and Busby (2008: 15), argue that Alberta is part of a federation and a larger monetary system, and is therefore shielded in some ways from the Dutch disease effect of currency appreciation and inflation. Yet, this notion is contradicted by Goldberg et al. (2008) who find evidence of Dutch disease symptoms despite a common currency across the United States. They suggest that exchange effects are unlikely to be the primary mechanism of the Dutch disease, underpinned by their cross-national findings. Apparently there are differing views on the effect of the “federation” argument when addressing the spending effect.

Nevertheless, Shiell and Busby (2008) point to labor movement within the federation and that this helps moderate wage increases, and contend that historically there is scant evidence of an adverse impact on non-resource sectors in Alberta. Vale (2007) argues that Norwegian spending of resource revenue cannot be increased due to shortage of labor, thus the increased spending would lead to real appreciation. Alberta, being a part of a larger federation, could easily instigate labor immigration from the surrounding provinces to mitigate this problem, according to Shiell and Busby (2008). The numbers in table 14 show net migration to Alberta from other Canadian provinces[134]:

Table 13

year	1991/92	1997/98	2004/05	2008/09
number	**2 983**	**43 089**	**34 423**	**13 184**

The numbers show, expectedly, that migration to the province is low during slower economic times in the late eighties and late 2000’s. During prosperous times the booming oil

[133] Trading-charts: http://futures.tradingcharts.com/chart/CO/M
[134] Statistics Canada (27.09.12): http://www.statcan.gc.ca/pub/91-209-x/2011001/article/11514/tbl/tbl-eng.htm#t1

and gas sector instigates migration of workers from other provinces in Canada. The average migration for the period between 1991 and 2009 is 18 674, however the numbers fluctuate vastly with a low of -1 630 in 1993/94 and a high of 45 795 in 2005/06. Of all the Canadian provinces only Alberta and British Columbia display positive migration numbers during the period between 1991 and 2009[135]. Seemingly the other provinces are leaking, and some of the people leaving the other provinces end up in Alberta. It thus looks like Shiell and Busby (2008) are right, by referring to CPI and migration numbers, when they claim that: when economic activity is high in Alberta, labor migration to the lucrative oil and gas business and other sectors will help mitigate wage increases.

The Dutch disease effects are most visibly seen after the resource has been depleted (Bimenyimana and Vallée 2011). With the Alberta Department of Energy estimating that the oil reserves in the province will last for 170 years, it is hardly surprising that future depletion of the resource is not an imminent concern in the province[136]. However other concerns should be addressed. Volatile market prices and technological developments due to environmental worries are factors that could make the Alberta oil and gas reserves less valuable. As noted above, Alberta is a boom and bust economy dependent on international market prices. When prices are high the economy is booming, and opposite, when prices are low the economy will struggle. This historical fact has made several economic actors voice an argument for saving during boom times, which may be used during bust times. Both the Alberta Chambers of Commerce and the Institute of Chartered Accountants of Alberta, as previously presented, have pronounced concerns about the volatility of the Albertan economy. Their efforts have led to the establishment of a Sustainability Fund meant for correctional purposes during economic downturns. Yet this fund may not exceed C$2.5 billion and during the recent financial downturn the Sustainability Fund was depleted, showing that a larger fund is needed in case of a more lasting economic recession. In short, Alberta being a province in Canada makes it less susceptible to the Dutch disease although some signs of factor movement and spending effect are visible. It seems that the possibility to easily instigate migration from other provinces during prosperous times partly explain

[135] Statistics Canada (27.09.12): http://www.statcan.gc.ca/pub/91-209-x/2011001/article/11514/tbl/tbl-eng.htm#t1

[136] Government of Alberta (27.09.12): http://www.energy.gov.ab.ca/OilSands/960.asp

how Alberta escaped the disease despite high economic output combined with little or no fund saving.

10.3 Summary, Comparison and Findings

Both Norway and Alberta are today prosperous economies, and the economic policies pursued by the two governments (liberal and coordinated) have theoretic backing in Hall and Soskice's (2001) Varieties of Capitalism. Yet when viewed in light of Dutch disease theory both cases are mildly susceptible to this phenomenon and Alberta maybe more so, than Norway.

Since 1970, when oil was discovered in the North Sea, Norway saw a decline in industries other than oil when measuring their respective GDP contribution, and the number of workers employed in other industries declined. This implies a factor movement away from more traditional industries, yet only 3 percent of the total Norwegian labor force is today employed by the oil and gas industry. In Alberta this number is 7.4 percent, indicating that Norwegian policies meant to strengthen economic diversification have been more successful than what is seen in Alberta. Nevertheless oil and gas' contribution to GDP is more or less equal in the two cases (23.4 percent in Alberta and 21 percent in Norway). Seemingly both economies have oil and gas as important components of their total economies, even though other sectors contribute substantially as well. In Norway the major wage negotiations and government schemes for the promotion of Norwegian industries outside the oil and gas sector must be expected to be an important reason for this. In Alberta the possibility to instigate labor migration from surrounding provinces has helped mitigate the effect of factor movement because migrating labor goes to industries also outside the oil and gas sector. The migrating labor additionally helps mitigate the spending effect in Alberta, while the government savings fund functions as a safeguard against this phenomenon in Norway, in the ways noted in previously.

11 Validity of Findings

11.1 Universality

According to Rueschemeyer (2003: 332) comparative historical analysis falls short of developing "universally applicable social theory whose propositions are substantively meaningful and hold under specified conditions independent of time and place". Hence the analysis of this paper that relies on empirics gathered from Alberta and Norway and seen in light of theory presented above, have low external validity. The political culture and political institutional structure of the two cases have developed over time within two different jurisdictions, and presumably, they may only be utilized as explanatory variables in the two cases at hand, as presented. Yet Skocpol and Somers (1980) argue that one of the central goals of comparative studies is a type of comparison that examines two cases in order to highlight how different they are. Thereby it is possible to interpret how processes of change are played out in different ways within each context. In accordance with this, the analysis above describes two different political cultural contexts and two different political institutional structures and thereafter sees them in light of empirical evidence, with the aim of showing why they lead to different outcomes on the dependent variable.

11.2 Case-Stretching

Sartori (1984) argues that concepts that may easily be applied to fit a wide range of cases often are too broad in definition. The consequence of this is that similarities and contrasts among the cases which are important building blocks for the explanation of the outcome, are lost in the process. Thus the low number of cases, and the application of system-specific indicators in the study, mitigates the chances of case stretching. Accordingly, this paper utilizes definitions of political culture and political institutional structure that are solely applicable to Alberta and Norway. This way pertinent similarities and differences are accounted for, yet the universal applicability of the concepts is more or less absent. This approach is also supported by Przeworski and Theune (1970). They contend that the achievement of a high level of generality is the basic goal of social science, yet with regard to problems of validity: indicators that serve to operationalize the same concept in separate ways in different contexts may be preferable. System-specific indicators that this paper utilizes necessitate a close examination of each case, which may not be viable in a large-N study. Historical numbers and experiences are seen in light of the political cultural and political institutional structural differences in Alberta and Norway. This way the effects of western alienation and neo-pluralism in Alberta, and egalitarian individualism and democratic corporatism in Norway are shown to lead to different policy outcomes, in accordance with Przeworski and Theune.

11.3 Overdetermination

It must be noted that the danger of overdetermination cannot be alleviated completely. Lijphart (1971) notes that too many variables combined with too few cases could lead to overdetermination, meaning that important explanatory variables have been left out wrongfully. To mitigate this problem and in accordance with Lijphart, this paper compares two similar cases, referring to the independent variables presented previously, and focuses the analysis on the acclaimed important explanatory variables political culture and political institutional structure. This allows an adequate analysis of their influence on the outcome of government fund saving or not. Grounded in the theory and empirics presented above, this paper argues that political culture and political institutional structure are two important variables explaining the perceived differences.

12 Conclusions

The thesis started out with a puzzling observation. Norway and Alberta share a lot in common related to economic prosperity and both have access to vast natural resources and are liberal democracies situated in the western hemisphere. Presumably the large reserves of oil and gas affect the two economies in positive ways, yet the two have chosen quite different paths concerning where the revenue derived from oil and gas production is allocated. Norway saves almost all of the revenue in a government owned savings fund, while Alberta has since 1987 opted not to save substantial amounts of oil and gas revenue for future expenses. Instead Alberta keeps rents on oil and gas production low and thus leaves a greater share of revenues to be handled directly by the market. Out of this a research question was formulated:

Why have the government of Norway and the provincial government of Alberta ended up with different policies for natural resource revenue allocation?

Obviously differences in jurisdictional autonomy must be expected to have an effect in this regard. Norway is a sovereign country with its own currency and central bank, while Alberta is a province in the Canadian federation with limited autonomy. Nevertheless both cases keep ownership rights to most of the natural resources found on their territories and both have responsibility for the provision of public services like education, health care, and infrastructure.

In the chapter *7 Jurisdictional Autonomy* it was argued that even though Norway is a sovereign state it is influenced by wide reaching economic policies made outside their jurisdiction. In this regard Norway resembles Alberta that is also influenced by exogenously made decisions by being a part of the Canadian federation. Further Norwegian policymakers have to take considerations toward the developments of the national currency when determining economic policy. However numbers show that spending of natural resource revenue in Alberta affects the value of the Canadian dollar. Thus this predicament should also be on the priority list of policymakers in Alberta. This shows that the economic considerations that have to be taken toward resource revenue spending are somewhat similar for both Norway and Alberta.

In the search for an answer to why the policies differ in the two cases, political culture and political institutional structure were employed as explanatory variables. The two cases form a good foundation for utilization of the most similar case method of comparison because they are similar on a range of independent variables, but differ on the dependent variable. They also differ on the two variables political culture and political institutional structure that this thesis argues explain the different outcomes. Political culture is a difficult variable to employ with regard causality. Yet by employing Wildavsky's (1987) definition of culture as something that shapes what people want it is possible to distinguish it from other variables, and thereafter argue that it has causal property. As presented in this thesis it becomes clear that Alberta and Norway differ substantially on the political culture variable. Alberta is defined by the concept of western alienation that presumes government distrust, and a strong belief in the right to free enterprise. Empirics found in history, public surveys and the ruling PC government's policies underline the notion. Norway is described by Egalitarian Individualism that makes for a relatively high degree of government interference in the economy. Also here history, surveys, and Labor Party policies back the notions inherent in the political culture. Apparently the cultural traits presented are fitting for both policymakers and the general public. Obviously the wish for free enterprise in Alberta leads to low government interference in the economy, and thereby the incentives for government extraction of oil and gas rents and subsequently a government facilitated savings fund, are largely absent. In Norway the wish for equality and unity leads to a higher degree of government interference, and this paves the way for high rents on oil and gas production and succeeding government fund saving.

Political institutional structure is also expected to have an effect on the choice of government fund saving or not. Pye (1968) notes that it is not a straightforward task to distinguish culture from structure, but maintains that both should be accounted for in political analysis. In this thesis political institutional structure is defined as the formal institutions descriptive for the relationship between economic actors and between economic actors and the government. Following the critical realist position it is possible to prescribe causal property to structure because it provides a framework where policymakers and other economic actors make their decisions within. This thesis employed democratic corporatism as descriptive of the relationship between economic actors and the government in Norway. It entails a rather substantive government intrusion in the economy by the facilitation of major wage negotiations and government schemes meant to provide protection against international pressure. The argument is that a government owned oil and gas fund is a prerequisite for the upholding of the institutions, because it takes away large amounts of revenue from wage negotiations and it provides a powerful means to counter possibly negative effects on the domestic economy due to external economic pressures. The political institutional structure in Alberta was described by the notion of neo-pluralism. Here business is situated in a favorable position above other interest groups, and this explains the comparatively low rents on oil and gas production. Naturally the low rents produce weak incentives for government enabled fund saving. The rents, which are a prerequisite for fund saving, are left in the hands of business because the accommodation of business interest is seen as the best option by policymakers to instigate economic prosperity. Thus the structure turns out to diminish the outlooks for substantial government fund saving.

Although the two jurisdictions differ on the matter at hand, they have both produced prosperous economies. To explain this Hall and Soskice's Varieties of Capitalism was applied. Their approach argues that the options chosen in Norway and Alberta are economically rational, due to the differences in political culture and political institutional structure, and the positive macroeconomic numbers presented underlines this notion.

The second research question was:

Why, or in what degree, have Alberta and Norway escaped the resource curse and the Dutch disease?

Resource curse and Dutch disease theory was applied to add an economic rationale to the first research question. Even though both cases have so far fared economically well with their different approaches to natural resource fund saving, resource curse and Dutch disease factors tell a different story. From the evidence presented it seems clear that Norway have done better than Alberta in avoiding these phenomena, and that this is largely due to government fund saving. In Norway the government owned oil and gas fund takes away large revenues from wage negotiations and thus diminishes the possibility for conflicts. The fund also mitigates the chances for political purchase of power. In Alberta a high number of work stoppages have also been avoided despite the lack of an operational savings fund.

Arguably this is due to coherence between economic actors' interests and policy in the province. Sentiments of clientelism are visible, though, as regulations concerning where oil and gas revenues are to be located are largely absent.

Dutch disease theory concerning factor movement and the spending effect differ, although not substantially, in the two cases. Norway experienced factor movement away from traditional industries and the primary sector prior to the establishment of the government savings fund. Yet today only 3 percent of workers are employed directly by the oil and gas industry. In Alberta 7.4 percent is employed by the resource industry. When seen in light of decreasing numbers in manufacturing, it seems like Alberta experience factor movement to the lucrative oil and gas industry in a higher degree than what is seen in Norway. Arguably the differences are due to levels of rent and fund saving or not. When rents are high, as in Norway, less revenue is left in the market to be divided between actors. Thus wages will be comparatively lower, and this makes it less beneficial for workers to move from other industries to the oil and gas sector. The occurrence of the spending effect of real appreciation is lessened in Norway due primarily to the government savings fund. By storing excess revenue in a fund invested abroad overheating of the economy is less likely. In Alberta some signs of real appreciation are visible due to high productivity and low rents. Yet the possibility of Alberta to easily instigate labor migration from surrounding provinces mitigates this effect, thus the increasing labor force alleviates excess demand.

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